

CURRENT HISTORY

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Farewell to Laissez-Faire

By HENRY STEELE COMMAGER

[In an article entitled "The American Road to Fascism," published in this magazine last month, Dr. E. Francis Brown essayed an interpretation of the social and economic trends that have led to the legislative enactments of the first three months of the Roosevelt administration. Another view is now presented by a writer who is Professor of History in New York University and co-author with Professor Samuel E. Morison of Harvard of *The Growth of the American Republic*.]

IN the light of America's past, few phases of the Roosevelt administration are more arresting than the deliberate, determined and cheerful abandonment of *laissez-faire*. That abandonment is written into the imposing series of measures that have emerged from the Congressional welter of the last three months—the Industrial Recovery Act, the Farm Relief measures, the Federal Securities Act, the Muscle Shoals Development Act, the Home Owners Refinancing Act, the Railroad Reorganization Act and half a dozen other statutes of a similar character.

Though the formulation of these measures was the peculiar achieve-

ment of the new administration, it is primarily significant that they were embodied into law not at the irresistible dictate of a Mussolini but at the demand of and with the overwhelming approval of the American people. The many-sided program of recovery has been variously called fascism by Socialists and socialism by those who would be Fascists, but it is both unnecessary and misleading to affix foreign nomenclature to what is after all a natural and spontaneous expression of American democracy. What has happened in the last three months, with seeming dramatic suddenness, is neither the scuttling of democracy nor the surrender to socialism nor the application of fascism, but merely the repudiation of obsolete shibboleths of individualism and *laissez-faire* and a full-throated assertion of the right and purpose of democratic society to readjust its legal machinery to the demands of a new order.

It is, however, not wonderful that the expression of that purpose in a manner so imperative and so sweep-

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ing should be accompanied by misgivings and doubts. From the beginnings of the Republic, indeed from the time when Americans became politically conscious, men here have thought in terms of individualism, have feared government, have celebrated the virtues of an unregulated and uncontrolled exploitative system. Nature and history combined in America to give a character almost sacrosanct to what Mr. Hoover called rugged individualism, to make of this country the greatest experimental laboratory for individual enterprise that has existed in the modern world, and to create a state of mind profoundly antipathetic to governmental interference in or regulation of private pursuits. *Laissez-faire*, despite its foreign accent, was no importation. It was born of the American wilderness and of the boundless resources of the American Continent and nurtured on American political theory and practice.

From the beginning of English settlement on this continent Americans gave themselves to the task of exploiting the infinite resources that were vouchsafed them by a beneficent Providence, and from the beginning they learned that governmental interference in the way of navigation acts, land acts, timber acts and similar regulatory legislation was detrimental to their interests. The contrast between the development of Canada under a paternalistic French administration and their own progress under the blessings of salutary neglect was not lost upon Americans. The reassertion of imperial control in the 1760s meant just so much trouble to the Colonists, and as relations with the mother country became more strained, Americans turned inevitably to a philosophy which would justify opposition to parliamentary interference in their affairs. This they found in

the theory of the Puritan Revolution, the doctrine that there were certain great natural rights and laws with which no government could interfere—rights of life and liberty and property—and the further doctrine that no government was absolute but that all government was limited.

There came then that happy marriage of economic realities with political philosophy, celebrated in the Declaration of Independence and the State and Federal Constitutions of the Revolutionary Era. The moral of history as Americans read it in the light of the recent past, as Jefferson recorded it in the Declaration and as the Fathers crystallized it in the Constitutions, was that government was something to be feared, to be limited, to be hedged about with checks and balances. And governments were to be feared not only because they might tax without consent or take property without due process or infringe liberties or usurp powers, but because their interference with the processes of exploitation and aggrandizement might have a paralyzing effect upon the economic development of the country.

With the triumph of Jefferson *laissez-faire* received quasi-formal sanction as the philosophy of agrarian democracy. As he presented it, the task of government was essentially a negative one. People left to their own devices would build better than government could build for them, and people might well be trusted to take care of their own best interests and the interests of society. The soundness of this philosophy for America of the late eighteenth and early nineteenth centuries is obvious. There was in the boundless reaches of the West land enough for all; there was wealth enough in the soil and the waters, the mines and the forests, to make all men independent; there was the ability and the strength

and the intelligence of the people to achieve not only wealth but happiness. All that was necessary was for a benign government to provide for justice and for protection against foreign invasion, and to keep its hands out of the pockets and away from the throats of the people.

The principle of non-interference thus firmly established, men set themselves boisterously to the task of multiplying and subduing the earth. They flung themselves on the stored-up wealth of the country with a voraciousness that knew no bounds. The forests were destroyed, the soil gutted, the hoarded wealth of mine and quarry seized and wasted. Like an invading horde Americans surged across the continent, reaping where they had not sowed, destroying where they had not created, dissipating the resources of nature that were meant for future generations. Within a century after Jefferson had buoyantly celebrated "land enough for our descendants to the thousandth and thousandth generation," the best land was gone, and in a few short years scientists were gravely considering the imminent exhaustion of coal and forest, oil and gas. In the name of individualism and enterprise Americans had used up those fabulous stores of wealth that were to be the foundation for a new society.

While all this was going on, and before exhaustion was even anticipated, men were discovering new ways of making money through business enterprise and the exploitation of labor as well as of resources. With the coming of the industrial revolution and the application of science and invention to the processes of industry, small groups of men achieved strategic positions from which to control the manufacture and distribution of basic commodities. Great combinations of

capital and industry arose—the trusts and monopolies that so terrified an earlier generation—and became so powerful that individual laborers were unable to deal with them and governments from which they had secured their charters and often their very material foundations were unable to control them. A new type of exploitation was substituted for the old and simpler one. Partly through accident, partly through influence, partly through skill, powerful railroad, oil, iron, coal and packing corporations wrested privileges from State governments and defied regulation either by law or by public opinion. Such corporations were persons in the eyes of the law, and no State could deprive them of their property without due process of law.

Obviously in the face of this situation old theories of individualism and *laissez-faire* were no longer applicable, but because they played into the hands of privileged groups these groups adopted them as their philosophy. Academic support to rugged individualism as the American way of life was found in the imported doctrines of Herbert Spencer and was elaborated in this country by William Graham Sumner. A philosophy which had in the past spelled liberty and an opportunity for equality to millions of men, which had justified the American Revolution and was basic to Jeffersonian democracy, was greedily seized upon by corporate interests to protect their own selfish exploitation of resources and labor at the expense of society. It would be difficult to imagine a grosser perversion of a liberal philosophy than this.

What is important to remember is that the progress of corporate exploitation as recorded in the buccaneering practices of a Standard Oil or a Carnegie Steel Company, was not

achieved in the dark by a few villainous men fearful of discovery and of public wrath, but was achieved rather with the hearty approval and encouragement of the vast majority of Americans. The accomplishments of the swashbuckling captains of industry of an earlier day commanded the admiration of contemporaries—that admiration which finds expression in social approval and in emulation. There was, all in all, a good deal of regulation written into the statute books, but most of it was analogous to Sunday morality; it was not intended to be taken too seriously or applied too rigorously. No regulation of business or finance could be successful until it commanded the sincere approval and represented the sincere purpose of the people, and it must be obvious that Americans have not in the past desired a drastic enforcement of anti-trust laws or banking laws or inspection laws.

The theory of individualism still held sway. No idea was more deeply ingrained in the psychology of the people than the idea that the greatness of the nation, its wealth and power and glory, was inextricably bound up with the enterprise of those captains of industry and titans of finance who had been resourceful enough to seize power and strong enough to hold it, and no axiom was more firmly established than that any interference with the processes by which the nation had been developed or with the men who had developed it, was inimical to the American system. And so proposals for the regulation of charges or of hours and conditions of labor were defeated, or where enacted into law were ignored or emasculated by judicial decision. Yet nothing is more bootless than to discover in the chicanery of lobbyists or the wickedness of capitalists

or the conservatism of judges the explanation for the continued triumph of *laissez-faire*. That predatory individualism was rendered bolder and more immune by these influences cannot be denied, but it must be equally apparent that the majority of the people preferred, after all, to put their faith in individualism rather than in governmental control.

But with the turn of the century the temper of the people shifted. There came a philosophical revolution of far more importance than laws or judicial decisions, a revolution that challenged the ultimate righteousness of unregulated individualism, looked askance at the results of a century of exploitation, and substituted doctrines of social welfare for those of selfish aggrandizement. Foreshadowed in the Eighties and agitated for in the Nineties, the revolution did not find political expression until the administration of Theodore Roosevelt. But the attack on *laissez-faire* is not to be read in the records of that administration, though much of the inspiration was there, but rather in the statute books of the States. After all, most matters of social concern are properly under the jurisdiction of the State governments, and it was in such progressive States as Massachusetts, New York, Illinois, Wisconsin and Oregon that the attack on *laissez-faire* was launched. Here we find the first attempts to prohibit child labor, to provide for minimum wages, to regulate hours, to protect labor unions, to secure workmen's compensation and old age pensions. Here the outlines of a new system of social regulation were drawn and some of the possibilities explored.

Nowhere, however, was a planned society projected. It was indeed extraordinarily difficult for the States to achieve even a piecemeal regula-

tion of industry and of labor, and this for two reasons. In the first place these problems were inevitably of a section-wide or nation-wide character, and the Federal system permitted corporations to find refuge in States with more lenient laws. In the second place the Fourteenth Amendment prohibited States from depriving persons of life, liberty or property without due process of law, and the courts applied this provision to corporations when the question of the regulation of profits arose, and to labor when the question of liberty of contract was concerned.

The first three decades of the twentieth century revealed the sterility of *laissez-faire* and the imperative necessity of regulation by the Federal Government. From Roosevelt to Taft, from Wilson to Harding and Coolidge, the pendulum swung back and forth, but more important than Federal or State legislation was the indubitable change in the temper of the people. The tremendous popularity of Theodore Roosevelt was founded largely on the reputation he secured for himself as a "trust-buster," an enemy of "predatory wealth," a protagonist of the "square deal" and a conserver of the natural resources of the nation. Whether he actually justified this faith or not is of less significance than the fact that the people rallied to him with unprecedented enthusiasm because they thought that he did; and it is not without point to recall that Theodore Roosevelt was the first American President whose popularity was based on his advocacy of social reform. Woodrow Wilson, too, presented himself as the champion of regulation and control, and the "new freedom" faintly foreshadowed the "new deal." His matchlessly eloquent first inaugural presented a terrible indictment of those who were "very

heedless and in a hurry to be great," and it has, both in its criticism and its positive program, a curiously contemporary ring.

Under the compelling pressure of the World War the Wilson administration presented to the nation, for the first time in its history, the spectacle of a regulated and regimented industrial order. Such regulation was brought about not in response to the demand for a new social order; it was brought about in response to the more imperative emergency of war. But whatever its genesis, the significant fact is that there was revealed, for the first time, the far-reaching powers of the Federal Government over every process of our industrial life and the astonishing flexibility of our constitutional system. It is not without significance that many of the measures of the present administration are modeled upon those of the second Wilson administration, that the personnel of this administration is recruited to a striking extent from those who learned the ropes during the war, and that President Roosevelt, in his inaugural address, invoked the precedent of the war for those semi-dictatorial powers which he would, if necessary, demand.

The twelve years of Republican rule from 1921 to 1933 witnessed a revision of traditional practices of *laissez-faire*. President Harding and President Coolidge acted, one might say, upon instinct, but the more thoughtful President Hoover expounded a rationalized philosophy of rugged individualism. It was part of the conservative reaction that men should distrust panaceas for an improved social order, part of Republican doctrine that men should reject governmental interference in business, part of the creed of prosperity that men should refrain from tampering with

the economic set-up or from questioning its ultimate rightness. What Mr. Hoover celebrated—and correctly in the light of history—as the American system, reached its climax during his administration. The crash that followed was all the greater because it was from so lofty an eminence, but what was shattered on the rocks below was not only the temple of prosperity but the religion of individualism which it symbolized.

The first three months of the present administration marks the legislative repudiation of *laissez-faire* and the advent of a new ideology. How permanent is the change of heart and of mind we cannot know. It was not, however, a sudden conversion, though it was a dramatic one. It had been foreshadowed in Granger laws and Populist laws, in interstate commerce acts and anti-trust acts, conservation bills and farm relief bills, and even in some of the measures of the Hoover administration such as the Reconstruction Finance Corporation Act, which belied and confounded the individualism they were presumed to maintain. The courts, too, ever since the notable *Munn vs. Illinois* case of 1876 and down to the *Adamson Act* decision of 1917 and the *Florida chain store* decision of this year have with increasing emphasis asserted the principle that the police power of the State could be extended to matters in which the public had an interest.

But whatever the antecedents of the New Deal, never before in our history has the government undertaken to create and supervise an ordered economic scheme. Never before has our government asserted its authority over production, prices, wages and standards of living, or itself gone into business on a large scale. In his statement explaining the Industrial Recovery Act, President Roosevelt put the mat-

ter plainly: "In my inaugural," he said, "I laid down the simple proposition that nobody is going to starve in this country. It seems to me to be equally plain that no business which depends for existence on paying less than living wages to its workers has any right to continue in this country. By 'business' I mean the whole of commerce as well as the whole of industry; by workers I mean all workers—the white-collar class as well as the man in overalls; and by living wages I mean more than a bare subsistence level—I mean the wages of decent living." It is obvious that if the administration is going to maintain these "simple propositions" there is no longer room for the buccaneering individualism of an earlier day.

The measures which have catapulted from Congress in such bewildering succession certainly provide a framework for the building of a new order, whether they can actually support such an order or not, for they embrace the majority of our economic activities and affect individual men and women in countless and unprecedented ways.

The Industrial Recovery Act—not only the most important but the only thing of its kind ever attempted in this country—proposes, through co-operation of industry with government, to secure widespread re-employment, shorten the working week, guarantee a decent living wage, prevent unfair competition and eliminate overproduction, and these ends are not to be reached at the expense of either labor or the consumer.

The Agricultural Adjustment Act proposes an artificial increase in the price of agricultural commodities and the limitation of acreage through governmental regulation. The Secretary of Agriculture is given broad, almost dictatorial, powers over agriculture

and agricultural products, and the cost of the program is to be levied against the processors. There is some point in Norman Thomas's complaint that with millions of people on the verge of starvation the only thing the government can think of doing with the surplus farm products is to eliminate them. But whatever the immediate inadequacies of the act, the purpose is clear—to bring agriculture, ever the most individualistic of all industries, under planned control.

The Railroad Relief Act gives to a Federal coordinator of railroads extensive powers to eliminate wasteful competition, merge transportation facilities and reduce top-heavy capitalization.

The Tennessee Valley Development Act, the most far-reaching attempt at conservation and rehabilitation ever undertaken, places the government squarely in the power, explosives and fertilizer businesses and makes it directly responsible for the economic and social life of an immense region and a large population.

The provisions of the Home Owners Refinancing Act and of the Farm Relief Bill place the government, indirectly, in the position of mortgagee, and give it extensive powers over the entire mortgage business of the country.

The Securities Act grants to the Federal Government prohibitive powers over traffic in securities in interstate commerce and, in effect, involves governmental supervision of the entire security business of the nation, as the Glass-Steagall bill does of the loans and investments of banks.

The extent to which these measures jettison *laissez-faire* is apparent. The entire field of hours and wages of labor is brought under direct supervision of the government. Industry is not permitted to discriminate

against organized labor nor labor to interfere wantonly with the rehabilitation of industry. Trade agreements—not monopolies—are to be substituted for competition, and the doctrine of *caveat emptor* (let the buyer beware) gives way, in the field of security buying, to that of *caveat venditor* (let the seller beware). In the field of manufacture, of transportation and sale, of agricultural production and consumption, of banking and finance, of business contracts, and of all kinds and conditions of labor, the government is to exert a decisive influence. There remains, to be sure, wide elbow room for individual initiative and enterprise. The Roosevelt program represents regulation rather than control, the agreements of industry and labor are to be voluntary ones, and the President looks to "a partnership in planning and a partnership to see that plans are carried out." The purpose of the partnership is the restoration of a wholesome capitalist economy, not the substitution of State socialism or State fascism. But whatever the outcome, the terms of the partnership are to be laid down by the government, as the objectives are declared by the government.

There remains for adjudication the question of the constitutionality of the measures enacted. To what extent may we anticipate judicial sanction for the new program? Will the Constitution prove itself a flexible instrument, as it did during the World War, and as it has frequently in the past, or will the barricade of the Fifth Amendment prove insuperable? The auspices are not entirely favorable. The new laws, to be sure, are dexterously drawn to avoid constitutional complications. The provisions of the Industrial Recovery Act, for example, secure reforms in the wages and hours of labor not by direct governmental

mandate but by voluntary agreement on the part of industry. It is further to be noted that the preamble to the Recovery Act formally states that "a national emergency is hereby declared to exist"—an assertion which may conceivably influence the attitude of the courts but which is certainly not binding upon them.

Earlier attempts by States to achieve some of the objectives of the new program have been defeated by a strict judicial interpretation of the Fourteenth Amendment, and the Federal Government has experienced similar difficulties with respect to the Fifth Amendment. The effort of Kansas to provide for adequate wages and conditions of labor through the rulings of the Kansas Court of Industrial Relations was defeated in the Wolff Packing Company case. The attempt of New York State to limit profits on theatre-ticket scalping was negated in the recent Tyson vs. Banting case. The attempt on the part of Oklahoma to regulate the ice industry through a licensing act was defeated in the Oklahoma Ice case of last year.

Nor are the precedents in the adjudication of Congressional laws encouraging. The Supreme Court, to be sure, upheld, in a notable decision, the wage provisions of the Adamson Act, but efforts on the part of Congress to establish minimum wages for women and children in the District of Columbia and to legislate child labor out of existence have been defeated. The present Recovery Act places the burden of establishing decent wages for labor upon industry itself, but it is difficult to discover a legal distinction between the use of the licensing power as a coercive weapon and the

use of the power of taxation and of interstate commerce as a coercive weapon to attain the desired ends. As for protection to unionized labor, a statute forbidding interstate carriers from discharging employes on account of their membership in labor organizations was declared unconstitutional in *Adair vs. United States* as far back as 1908. It is entirely probable that the provisions of the Railroad Reorganization Act will be upheld, as such regulation has been consistently upheld in the past, but it is almost equally certain that some of the provisions of the Gold Repeal resolution, the Farm Relief Law, the Securities Act, and possibly the Tennessee Valley Development Act, will be challenged in the courts. *Laissez-faire* repudiated in legislatures and at the polls, has before now taken refuge in the judiciary.

It is encouraging to remember, however, that in the last generation the courts have continuously extended the domain of the police power of the State, have broadened the entire field of business in which the public may be said to have a controlling interest, and have increasingly upheld the validity of legislation strengthening the hands of the Federal Government. Though Mr. Justice Holmes was speaking only for the minority when he said, in a famous opinion, that "the Fourteenth Amendment does not enact Mr. Herbert Spencer's *Social Statistics*," it is entirely probable that the majority of the court may subscribe to that dictum now. It is not too much to expect that *laissez-faire* will be repudiated by the judiciary as it has now been repudiated by the legislative and executive branches of our government.

The Rise of Economic Nationalism

By RICHARD LEWINSOHN

[Originally a physician interested in social hygiene, the writer of this article turned to the study of economics and received his doctorate in political science at the University of Berlin. For five years he was chief financial editor of the *Vossische Zeitung* and other newspapers published by the Ullstein Verlag, Germany's leading publishing house. Since then he has been the chief Paris correspondent of the Ullstein newspapers. His books on monetary and economic questions have been translated into many languages.]

IN the Spring of 1927 the first World Economic Conference, which had been convened by the League of Nations, met in Geneva. In addition to the members of the League, the United States and Soviet Russia were represented by outstanding figures. The world had never before witnessed such a meeting. Industrialists, bankers and merchants as well as government economic experts from over fifty countries discussed the possibilities of stemming the tide of economic nationalism. The majority of the speakers painted the business situation in the gloomiest of colors. It is surprising today to read in the records of that conference how often even then the word "crisis" was mentioned and how, at least, the European delegates were convinced that the world was already in the midst of an economic depression.

As we know today, 1927 was not only a golden year of business prosperity for the United States but also for most European countries. Production and consumption were increasing and unemployment was at a low point. Nevertheless, the members of the conference and large groups in all Euro-

pean nations were certain that the world economy had since the war gone in the wrong direction. They were convinced that Europe especially could return to true peace and prosperity only if nationalistic tendencies in the business field were checked and sufficient room were left for the international exchange of goods.

In this spirit, a few clear and unequivocal resolutions were adopted, and the governments of the world, which at this conference were not represented by their responsible statesmen, were urged to eliminate the barriers to world trade by establishing more liberal tariffs and by concluding broader commercial treaties. These resolutions remained pious wishes. As a result of these exhortations to the governments there was only a sporadic alleviation of the difficulties in commercial intercourse. There was no change in the fundamental tendency of economic policy, and in practically every country economic nationalism continued on its course.

The second World Economic Conference, which was opened in London on June 12 of this year, differs even externally in a characteristic manner from its predecessor in Geneva. At the first conference independent business leaders, captains of industry, financiers, ship owners and labor leaders dominated, while this time the representatives of the States, the Ministers themselves, are the chief delegates. In 1927 the belief still prevailed that business itself would find a way out of the post-war difficulties and

that the State could limit itself to the rôle of an assistant. Today the State stands forth boldly as the supreme authority in the economic field. The representatives of business function only as expert advisers to the statesmen.

This change in the distribution of rôles discloses a radical change of attitude. In spite of all the nationalistic trends in the sphere of trade, the first decade after the war was also permeated with the idea that the State should not venture too far in that field. Not infrequently the State appealed to the authority of industry and bowed to its decisions, even in cases where the immediate obligations of the State were concerned. This was true of the Dawes Conference (1924) and also of the Young Conference (1929) for the settlement of the reparations problem. The State clung to the judgment of a few outstanding and competent men and contented itself with the execution of their decisions. The negative outcome of the World Economic Conference of 1927 showed, however, that even then the opinions of business men did not always prevail in complex questions and in the clash of conflicting interests. But, in general, there was an endeavor during the deliberations of the conference to give experienced business men a decisive voice in commercial matters. It was believed that those who best understood these problems would be able to solve them in practice. In other words, faith existed in the inherent objectivity of the economic process.

The misery of the years of the depression has almost completely shattered this belief. The inability of industry itself to overcome the crisis has necessarily secured for the State progressively increasing rights and sov-

ereignty in the sphere of commerce. The State as the organization of the entire people continued, even in periods of depression, to have command of weapons which the individual business man or business groups lacked. Under the pressure of the crisis industry has had continuously to reduce prices and wages. On the other hand, the State, because of its sovereignty in taxation, was able to increase its income; and even if revenues have not come up to expectations, it was nevertheless possible for the State to levy new taxes and thereby obtain additional receipts. Apart from this fact, the State was in a far more advantageous position than private business to make use of public credit. Owing to the adverse economic situation, individual enterprises in most European countries were no longer able to receive short or even long term loans on favorable conditions. Since the State was sovereign in matters of taxation its credit was sound. Budget deficits, if necessary, could be repeatedly balanced by the flotation of loans.

Concomitantly with this, the economic authority of the State grew as a result of the manner in which it distributed its income. In practically all European countries during the depression the State has, to a large extent, subventioned and supported private enterprises. In Germany, in the process of rehabilitation, the State has taken over practically the entire banking system. Through the reorganization of the Banca Commerciale Italiana, the Italian Government has assumed authority over the nation's largest financial institution. In France, which has been least affected by the world crisis, the State played a decisive rôle in the reconstruction of the Banque Nationale de Crédit. In all these countries the State has refi-

nanced the shipping companies and extended its influence over them. As financier and creditor the State has entered precisely upon those economic activities which basically have worldwide commercial ramifications and do not want the scope of their business contracted by narrow nationalism.

Until about 1930 there were still in many European countries powerful tendencies opposed to the further intrusion of the State into the domain of trade. In the last few years this opposition has dwindled away. Industry needs the State more than ever before, and when it is incapable of financing itself looks upon the State as a life-saving instrument. The logical result of this direct and indirect dependence of business on the State is that outwardly the State appears as the spokesman of industry. Before the world depression it is likely that storms of protest would have arisen if the State had attempted to appear at an international economic conference as the decisive factor. Today industry accepts the leading position of the State as a matter of course. The State passes judgment and business contents itself with the execution of the decisions made by the governments.

Now, it is a characteristic of the State that it always views economic as well as other questions from the national standpoint. The nation's boundaries are the natural boundaries of the State's sphere of interest. Everything across the borders is foreign. Even if in the most thoroughgoing fashion the State promotes economic cooperation with foreign countries, in its deliberations its own frontiers have a far greater importance than they have in the calculations of the most nationalistic private entrepreneur. When the State actively

enters the commercial field, there is everywhere an accompanying increase of economic nationalism, no matter whether it is on the basis of socialism as in Soviet Russia or on the basis of capitalism as in Western and Central Europe.

That is the road that the business of the world has actually taken in the post-war period, and to an increasing degree since the advent of the economic crisis. The European system of small States with their 16,000 miles of customs frontiers deprives the most thickly populated section of the world of the fruits of its labors and the benefits of technical progress. Through the conclusion of commercial agreements governments attempt to lower the tariff walls which they themselves have erected. But a considerable proportion of the "bargaining tariffs" which were supposedly forged as weapons for commercial negotiations remain in force even after the conclusion of these treaties. A certain stability, nevertheless, emerges from this system of commercial agreements. It provides a basis upon which industry may plan and it also permits some freedom of movement in the international exchange of goods. The State limits itself to specific supervisory functions. Capital has the possibility of flowing into those countries which pay the highest rates of interest and offer the most promising prospects for the future.

This period, which lasted from about 1927 to 1929, was suddenly ended by the change in business conditions. Only a small number of the commercial agreements were abrogated; for the most part they were either circumvented or violated. The most-favored-nation clause, which until the economic crisis had constituted the foundation of the commercial

treaty system, became merely an ornament. Now States issue import prohibitions at will and establish quotas which remain in force for a year, although many have been changed at more frequent intervals. No manufacturer of goods for export is in a position to know if he will be able to market his products in a country which has previously been open to him.

In the general confusion one field remained free from economic nationalism, namely, currency. The establishment of the Bank for International Settlements at Basle in 1929 and the regular meetings of central bank presidents awakened the hope that from this direction the economic nationalism of individual countries would be energetically combated. But even this last fortress of world economy fell in September, 1931, when Great Britain abandoned the gold standard. The British and two dozen other currencies now go their own way. Monetary policy is manipulated in an unprecedented manner in the service of nationalistic economic tendencies. The State utilizes this weapon as a method of fighting competing nations. Even in countries where the currency standard has not been changed the State uses its monetary policy in the economic struggle with its neighbors.

As a new instrument of economic nationalism, currency restrictions are added to tariffs, import prohibitions and quota arrangements. Only a few European countries continue to permit the free circulation of money over their frontiers. In Central and Eastern Europe, Poland and Lithuania are alone in permitting the exportation of bills of exchange. Without especial permission, citizens of a country are allowed to carry only a minimum sum of their own nation's currency across

the frontiers. Although this has led to many annoyances in the international tourist trade, it has put a more serious restraint on the international exchange of goods than have all tariff obstacles. The regulation of bills of exchange and currency means in practice State control of the entire foreign trade of the nation. The State decides for what purposes bills of exchange may or may not be used. It divides goods into necessities of life and luxuries. Its setting up of different categories of value foreshadows the end of all economic freedom. Outwardly the State creates a planned economy without really having any economic plan.

Economic nationalism is reflected statistically most clearly in the contraction of world trade. Between 1911 and 1913 the yearly average of world foreign commerce—that is, the exports of 102 countries—amounted to \$19,156,000,000. (As a result of statistical errors the imports are always from \$1,000,000,000 to \$2,000,000,000 higher; actually they must of course agree with the total exports.) The scarcity of goods in the European countries which had starved during the war, the creation of new States, the general trend toward industrialization and, finally, the great difference in price levels in the European inflation countries favored international trade in the first years after the war. But this movement had by 1925 approximately reached its high point with world exports amounting to \$31,673,000,000. During the following years, the most flourishing period of post-war economy, foreign commerce participated only in a limited measure in the general trade rise. World exports rose to \$33,165,000,000 in 1929. But they fell all the more rapidly with the advent of the depression as a result of the growth of artificial barriers. By 1931

world exports had fallen to \$18,674,000,000. They had declined, therefore, to a figure lower than the pre-war level and were 43.6 per cent lower than in the peak year of 1929. The final statistics for 1932, which have not yet been published, will unquestionably reflect a considerable further decline. Such is the picture of world economy at the opening of the London Economic Conference.

It can scarcely be denied today that this contraction in international trade has also worked greatly to the detriment of the individual nations themselves. Even in those countries which have armed themselves with the strongest defensive weapons against foreign nations, protectionism has not been gladly resorted to; rather the attempt has been made to apologize for it as an unavoidable evil. Only during the last few years has there developed in a few countries a kind of economic philosophy which proclaims the State as the economic unit and which more or less looks upon the exchange of goods with foreign nations as treason against one's own country. These ideas are most widespread in Germany. Using the catchword "autarchy," nationalistic circles in that country have attempted under present-day economic conditions to realize the old utopian theory of Fichte (1762-1814) of the "closed commercial State."

For example, Werner Daitz, head of the foreign affairs bureau of the National Socialist party, has demanded, in an article expounding Germany's new foreign commercial policy, "that pre-eminence must once again be granted to the national economic units as the eternal producers of all goods and their ethical meaning as against the ethics of international trade and commerce." (*Berliner Tage-*

blatt, June 4, 1933.) This is elaborated upon in another part of Daitz's exposition: "So-called world economy is nothing uniform; it is no organism, but rather a mechanism, a mechanical pell-mell, a mere idea of relations." In the practical application of these principles, however, even the National Socialists do not wish to close the frontiers altogether. Such a policy for an industrial economy such as Germany's, which is dependent upon the importation of raw materials, would rapidly bring trade to a complete standstill. The National Socialists have declared, on the contrary, in their latest economic program: "Autarchy does not mean closing the frontiers in an economic sense, but rather the organization of necessary imports in accordance with the standpoint of military needs. That means that only those goods should be purchased in foreign countries which can be dispensed with in case of necessity, and that adequate stores of goods should be accumulated which belong in the inventory of a national economy and which can be obtained only beyond our own frontiers."

Although military motives have not been expressed so outspokenly as the basis of the economic policy of the State, "the standpoint of military needs" is effective in various ways in the other European countries as a factor of nationalistic economic policy. At the Disarmament Conference in Geneva the economic disadvantages of armament policies have been almost exclusively considered from the budgetary viewpoint. In reality the ramifications of armament policies are far broader. The cultivation of grain on marginal lands, the establishment of steel industries despite, as in Italy, an unfavorable position in regard to the necessary raw materials,

the gold-hoarding of the Bank of France, all are measures of defensive politics which have in part dictated these developments. Everywhere fear of a new war impels States to pursue a policy of economic nationalism; and it is a strange paradox that the most international part of armament economy is the arms industry itself, which supplies foreign countries with cannon, armor plate and warships.

Is it possible for Europe, a continent inwardly and outwardly dismembered and filled with distrust, to bring economic nationalism to a halt, and once again pave the way for the international exchange of goods? There has been no lack of effort in this direction. Until the beginning of the economic crisis attempts were made along two lines. One school believed that it would be possible to effect a return to the old system of free trade by means of propaganda and friendly exhortation. It saw the main obstacles to foreign commerce in the artificial price-fixing policies of cartels, in the all-powerful trusts, in wage agreements and, above all, in tariff barriers. By eliminating these impediments this school would have established a purely liberal economic system, such as existed in Europe between 1870 and 1880.

The second school, which considered a return to economic liberalism an utter impossibility, wanted to start from existing economic realities, from the cartels, tariffs and "organized economy" as they exist in Europe today. But this school wanted a planned organization of the entire national economy to take the place of accidental combinations intent upon their own interests. In its opinion, independent branches in each country should join together in syndicates, which would then stabilize prices, limit production, divide markets and come to an agree-

ment with labor representatives on the question of wages. The national syndicates of individual industries should then form international syndicates, which in turn would conclude agreements on prices, production and markets. As a result of these international cartel agreements, tariffs and other trade hindrances would become superfluous. The chief exponents of this kind of internationally planned economy were two electrical magnates, who have since died—Louis Loucheur, the well-known French politician, and Felix Deutsch, head of the Allgemeine Elektrizitäts-Gesellschaft in Berlin.

At the first World Economic Conference, in 1927, the two views, the liberal and anti-liberal, came into collision. There was agreement on only one point—the desire to eliminate, as far as possible, the assistance of the State. Business alone should decide what was right and practicable for itself whether through a renaissance of the old theory of *laissez-faire*, or through the complete reorganization of the economic structure. In the course of the discussion the liberal viewpoint, supported by the British, retained the ascendancy. But, as has been previously mentioned, the discussions were fruitless. It was impossible to restore liberalism. The years of the depression have also impeded efforts toward an internationally planned economy. Many cartels have disintegrated, and those which have survived the crisis have lost their economic importance and especially their prestige. Public opinion in Europe, faced with the spectacle of innumerable break-downs and failures of famous business men, refused to accept control by cartels of the international economy.

The tendencies toward a stronger internationalization of economic life

are now moving along a different road. They proceed from the assumption that the State possesses the means of alleviating the present economic misery. Politics should lead industry out of the blind alley into which it has run. Governments should unite for the purpose of practical cooperation. Through international action governments must put an end to economic nationalism and reopen the frontiers which they themselves have closed. The first and greatest plan of this kind was Briand's project in May, 1930, for the creation of a European union. The final goal that inspired the wise old man was the unification of the European Continent after the example of the United States. The "United States of Europe" would continue, to be sure, to respect the sovereignty of the existing continental States, but it would soon mold Europe into a unified economic area in which there would no longer be any tariff wars and currency struggles. Through the elimination of economic conflicts Briand hoped to exclude political struggles and to insure world peace. His extraordinary prestige secured the immediate discussion of the plan by the League of Nations. The League appointed a committee of investigation, which met several times, but as a result of Briand's death and the aggravated European political situation the project came to nothing.

There were better prospects of actual success in the attempts to unite definite regions of Europe into economic entities. Belgium, Holland and Luxemburg signed a tariff convention to which the Scandinavian countries were anxious to adhere. The plans to unite Germany and France in a customs union, and if possible in a currency union, never advanced beyond the theoretical stage. There was just

as little success in establishing large unified economic regions in central Europe. French and Italian resistance, based upon political motives, defeated the German-Austrian attempt to establish a customs union in the Spring of 1931. Similarly, nothing came of Tardieu's project in the Spring of 1932 to form the territories of the old Austro-Hungarian dual monarchy into an economic unit. On this occasion Germany and Italy opposed the idea of unification. In Eastern Europe the Baltic States made repeated attempts to establish a Baltic union which, until now, have been unsuccessful.

In addition, the major European powers have attempted during the last few years to pave the way for international economic cooperation upon a broad basis. The reparations conference at Lausanne in June and July, 1932, appointed a committee of inquiry for the Central and Eastern European agricultural countries with the aim of organizing improved commercial exchange between the agricultural and industrial countries. Mussolini's Four-Power pact also vigorously supports economic cooperation among the States. And, finally, all these endeavors have received a concrete basis for negotiations at the World Economic Conference in London.

The whole world looks upon that conference as a decisive event in the commercial life of each country, whatever the results of its deliberations will be. It is not possible simply to erase from the pages of history the failure of such a great undertaking. If the conference does not lead to positive results, it will lead to negative results. In other words, if it does not promote the internationalization of trade, it will, indirectly, strengthen powerfully the nationalistic trends of present-day commerce.

The Nationalist Craze in Culture

By ROBERT BRIFFAULT

[Author of several important works on social evolution, Dr. Briffault is now studying the crisis in European civilization, with Paris as his headquarters.]

IN a situation which is by many accounted desperate, the nations of Europe are, one and all, seeking their salvation in intensified nationalism. Politically, the inevitable outcome is the imminent danger of war; economically, the strangling of trade and the consequent depreciation of capital values. The cultural consequences of nationalism are perhaps less concrete; they are no less real and no less fatal.

Germany is providing a fearful example of those cultural effects on a fantastic and incredible scale. Early medieval history has to be searched for parallels to the edifying performances inspired by the desire of twentieth-century Germany to preserve the purity of its national culture.

Fascist Italy, having had its literary bonfires shortly after the March on Rome, is now promoting cultural nationalism in a more delectable form by issuing sumptuously printed editions of approved Italian writers. As a monument to Fascist culture, the publication of an ambitious and carefully censored encyclopedia is now being undertaken, some volumes of which have lately had to be destroyed owing to the discovery by the Fascist National Council of philosophical tendencies in some of the articles which did not sufficiently harmonize with the principles of dictatorial despotism. Despite those activities, all foreign critics have commented on the phenomenal artistic and literary sterility of Fascist Italy.

Other European countries are throwing up their hands in horror at the manifestations of cultural nationalism in Nazi Germany and Fascist Italy. But they are themselves indulging in cultural nationalism. The difference is one of degree, not of kind. I heard a French writer being praised the other day on the ground that he "resolutely kept himself French"—on the same principle presumably on which the Nazi worthies are purging the culture of their unhappy country from "un-German" thought. The intensification of that nationalistic sentiment, which has always been fervent in France, is having very much the same effect there as if it were forcibly imposed by licensers of thought.

This is strikingly illustrated in regard to translations. When the enormous number of books published in France is considered, the relative scarcity of translations from contemporary foreign literature is remarkable, and such translations are, as a rule, astonishingly belated. Novelties in the way of French translations are, with a few exceptions, twenty, ten, or at least five years old.

The anxiety to be nationalistic inevitably throws back any literature and culture inspired by that ideal upon its own traditions, that is to say, upon the past. The richer those traditions are, the stronger is their stranglehold on the mind, and the more potent the retrograde influence on a people that deliberately withdraws into the shell of its ancient culture. The phenomenon is familiar to all students of cultural

history as one of the most uniform symptoms of decadence. Every decadent literature has draped itself in the glories of its past.

In matters of literary judgment the nationalistic standard produces fantastic distortions. Educated Portuguese will gravely maintain and do verily believe that Camoens is the greatest poet the world has known. To Spaniards the glory of Cervantes outshines in the same manner all other literary glories. Those judgments depend obviously upon national perspective. Had Camoens been an Italian he would rank as a minor poet of whom no one need have heard. The delightful Cervantes may suggest a comparison with Swift or Sterne, the question of precedence remaining open. The cult of Goethe in Germany is due to the same perspective. It has given rise to the expression of grave doubts. In many people's judgment on Goethe, the foolish old gentleman with old-fashioned ideas is as apparent as the genius.

The French are somewhat perplexed as to who is their great poet. For a time that position was held by Victor Hugo—on sufferance. But unfortunately Victor Hugo had questionable internationalist, pacifist and even radical ideas. The intensified nationalism of France since the Russian revolution prefers, accordingly, not to pronounce his name, and has dropped Victor Hugo as it has dropped Anatole France and is dropping André Gide. They are, in a Nazi sense, "un-French." One prefers to fall back on the classical age and to set the tiresome Racine on the Olympian plane beside Sophocles and Shakespeare.

If such be the nationalistic distortion in cultures which are rich and old, one may gauge the effect of that irrelevant factor in the throng of puppet nations with which the Treaty of Versailles has strewn Balkanized Eu-

rope. For obvious purposes of political propaganda super-nationalistic France encourages the like spirit among the vassal nationalities which it has helped to create. International culture, if poorly represented by French translations, is much in evidence in Paris in the form of bookshops devoted to Estonian, Latvian, Finnish, Polish, Czechoslovakian, Hungarian, Serbian, Rumanian, Lithuanian national literatures. Each of those Versailles-treaty nationalities is feverishly promoting the sentiment of cultural nationalism by numerous periodical publications, by the printing of literature in idioms that scarcely a million people can read, of which the oldest dictionaries are not a century old.

There are two quite distinct aspects to the question of the languages of small ethnic groups. The death and oblivion of any idiom is, in a cultural point of view, regrettable. European scholarship, which has laboriously reconstructed the languages of ancient Egypt and Babylon, would deplore as a cultural loss the passing of Gaelic, Norse, Wend, Slovene, Serbian and Kashube philological studies.

But efforts to keep alive Gael, Estonian, Czech idioms as modern literary languages and media of contemporary culture are an entirely different matter. There is not the slightest cultural profit to any one, inside or outside Czechoslovakia, from the publication of a new book in Czech. There is not the slightest advantage in compelling children to devote to perfecting their knowledge of Welsh or Lithuanian the time which they might employ in learning German, English or French. Any Hungarian who is desirous of cultivating his mind will not fail to acquire some other language besides Magyar. If he writes a masterpiece in Magyar, it will have to be translated into some more widely

current language before it can be known to the world as a masterpiece. There is not a scrap of Hungarian-written literature older than the time of Maria Theresa, when for political purposes the language was revived.

The Czech idiom, the language of the Czechoslovak nation begotten at Versailles, was artificially dug out and revived by a few enthusiastic patriots in the course of the last century. So decayed and moribund was it that when Joséf Dobróvsky, the learned Czech philologist, first undertook to reconstruct its grammar and prosody he got the accents all wrong. The revived language had to be gradually molded into literary shape in order to be intelligibly and grammatically used. The artificially resurrected language is now added as a political, journalistic, literary and scientific medium to the Babel of European tongues. What has been the advantage of that linguistic resurrection? From a cultural point of view, absolutely none. The sole purpose served has been to foment a separatist nationalistic sentiment, which was justifiable as a revolt and protest against Habsburg misrule, but which is now merely an added danger to peace and an added obstacle to culture.

The preservation of literary languages and of surviving dialects is a matter of scholarship and philology. The artificial preservation and galvanization into literary life of moribund local idioms is not a matter of culture; it as a matter of nationalistic propaganda and a senseless stupidity. The languages of the new small nations of Balkanized Europe have for the most part been thus galvanized for purposes that have nothing to do with any cultural interests.

It is to be observed that the thin pretense that Versailles nationalities correspond to ethnic entities is, as is

the case with all nationalities, a fiction. The Versailles mapmakers, spuriously professing to be guided by ethnological considerations, placed or left nearly 30,000,000 Europeans under the dominion of majorities foreign to them in race, tradition and language. The inclusion of small ethnic and linguistic groups within larger political and cultural units is not in itself an evil. The Basques, Bretons and Provençals in France and the 182 nationalities speaking 149 languages incorporated in the Soviet Union are not acutely conscious of a grievance.

Such inclusion is an evil only when the ruling political powers are themselves evil and perpetuate through nationalistic antagonism the relation of conqueror and conquered. The evil arises from nationalism, not from the obliteration of nationalism. The true grievance of the Irish under British rule, of the Poles under Russian or German rule, of the Czechs under Habsburg rule was not that they were under foreign rule, but that they were under oppressive rule.

Apart from the evil of barbaric government founded upon the relation of conqueror to conquered, incorporation into larger political, economic and cultural units is to the advantage of any group of people, and nationalistic separatism to its detriment. So much is this the case that none of the puppet nationalities created by Versailles is capable of *de facto* national independence. None stands on its own feet. They are politically, financially, economically dependent for their mere existence upon the powers which, for their own purposes, maintain them, pay the piper and call the tune.

The fiction that any nation, however venerable its cultural achievements, can in the present age be culturally independent is even bolder and more grotesque than the fatal fictions

of political and economic self-sufficiency. Culture has, since the most primitive phases, been commensurate in its value and development with the outer contacts it has enjoyed, with the internationalism of its intercourse. Those races which we call savage, and which have remained primitive in their culture till modern times, have done so from no other cause than their cultural segregation. China owed its cultural growth to extensive importations and contacts, and that growth was instantly arrested when those contacts were artificially excluded.

Every one of the European cultures which pretend today to preserve themselves pure and undefiled from alien contamination owes its own growth and development to international contacts. Germany remained backward and barbaric until the penetration of French influence in the eighteenth century, and it would have had no Goethe, as Goethe himself would have been the first to acknowledge, without that influence. France would have known no classical renaissance and no *grand siècle* but for the influence of Italian humanism and culture. The rationalism of the French age of enlightenment was largely inspired by English thinkers; the spirit of the French liberal eighteenth century at its best was even indebted to America. England would have had no Shakespeare, as we know him, but for the Italianate influence which pervaded her culture in the Elizabethan age.

What has been true since the Stone Age is true in an even more vital sense today when European civilization is called upon to adapt itself to new conditions, new values and new relations, or perish utterly. Formerly it was a question of cultural progress; today it is a question of life and death. For a nation, for a people, to withdraw at such a time within the

sclerosed shell of its old-time cultural traditions and to close its doors to the striving thought of the outer world is to commit cultural suicide. It is as suicidal an attitude as the short-sighted policies of nationalistic militarism and economic egoism, and is fraught with no less danger.

The vociferous gospels of cultural nationalism are indeed nothing but the vulgar publicity and propaganda of blind nationalistic policies inspired by panic and short-sighted egoism. To preserve English, French, German or Ruritanian culture unspotted and uncontaminated, to ban and outlaw what is "un-English," "un-French," "un-German," are phrases destitute of meaning except as slogans of chauvinism intended to fan blind nationalistic passions. Nationalism has been beneficent and promoted culture in the past when it supplanted tribalism and unified scattered populations. Today, when instead of seeking to unite, it aims at fragmenting, it is an incendiary brand that menaces the very existence of European civilization.

Much is heard in these days of the art and literature which openly avows itself a propaganda for the thought that would break away from a past of blood, oppression, fallacy and hypocrisy. Propaganda, it is ambiguously urged, is not art or literature. Yet those same people who questionably appeal to esthetic values are as a rule the strongest advocates of cultural nationalism. They condemn the propaganda by scornfully attaching to it the opprobrious charge that it is "foreign." Yet what else is the outbreak of savage zeal for "national culture" which is at the present moment plunging Germany back into the dark ages, Fascist Italy into the age of bombast and fustian, France into the mustiness of its pre-revolutionary past but the most blatant propaganda?

A more vital question than whether literary culture is or is not propaganda is, "What cultural aims shall European civilization propagate?" Shall the culture which it encourages and propagates be inspired by a fearful shrinking from "dangerous" thought, or shall it be inspired by the desire to face honestly and courageously the facts to which it must adapt itself or perish?

All nationalism in culture, in literature, in art, in the selective operation of thought and taste, is a superadded propagandist value which serves no other purpose than to impart a semblance of reality to what is a myth and a fiction. As is well known, nationality has never been defined. It corresponds neither to race, nor to language, nor to creed. A nation consists of the people subject to the rule of a government or State, however that ruling power may have been established, whatever interests it may represent and serve. That is true even when the distinction between people and rulers is slurred or stressed according to the requirements of political dialectics.

To suggest that the nation is something else, that it is an ethnic entity, that it is founded upon some intangible and undefinable quality of the blood, or of the mind, over and above the fact of political power wielded by a ruling government—to suggest that fiction has been the constant concern of cultural nationalism. One factor only lends to that fiction an artificial reality—the propagated and inculcated national culture. Hence the

anxiety of all ruling powers to inject the intemperance of nationalism into that culture. If Germans, Poles, Hungarians, attach so much importance to keeping undefiled the pure well of German, Polish, Magyar culture, it is not from any linguistic, literary, esthetic zeal, but in order to rivet more firmly upon the people the fiction that the powers which rule them are the expression and not the source of national existence.

There is nothing in that propaganda of cultural nationalism that can serve even remotely the interests of culture. That the artist or the writer should deal with what he knows is common prudence in the interest of his art; that he should feel under the obligation of conforming to a nationalistic prescription on the ground that it is national, that he should on that ground confine himself to "the American scene," or any other scene, or be enslaved by a tradition because it is national, is not to the interest of what he shall produce.

Art, literature, science and thought have, on the contrary, no more dangerous foe than nationalism. Their interests are international. The far-flung freedom of cultural contacts is the very breath of their vitality, the condition of their growth and sanity. That has ever been so; it is more momentarily true today than at any time in the past. The propaganda, be it Nazi or other, which would set up Chinese walls around any culture does an ill service to all those nations for whose benefit it professes to seek salvation.

German Capitalism and the Nazis

By CALVIN B. HOOVER

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THE circumstances which brought about the fall of von Schleicher and the elevation of Hitler to the Chancellorship of the Reich were unfortunately such as to obscure the fundamental forces which were really responsible for the triumph of National Socialism. These circumstances also had the effect of perpetuating the common misunderstanding of the true nature of the National Socialist movement. The instrument which brought about the triumph of Hitler, *at the particular moment at which it occurred*, was indeed the intrigue which von Papen and certain of his associates carried on against von Schleicher. Perhaps the complete details of these manoeuvres will never be known, but such facts as are known present a picture of conflicting personal, political and economic interests struggling for the ear of the old Field Marshal, President von Hindenburg—a picture that explains little of the basic character of the forces that had brought about a desperate crisis in Germany.

It is well known that von Papen suc-

ceeded in winning Hugenberg and the reactionary agrarians to the support of a National Socialist-German National coalition cabinet. It is generally but erroneously believed that von Papen also had obtained the united support of German capitalism for this coalition government. The facts are that he had, indeed, obtained the support of an important part of Rhenish-Westphalian heavy industry, but the majority of German industrialists and capitalists stood aloof and viewed the course of events with an alarm that was later to be proved only too well founded. Von Papen, through his personal connection with Colonel Oscar von Hindenburg, the President's son, and with Meissner, the President's secretary, succeeded in winning the support of President von Hindenburg for the destruction of the von Schleicher government and for the formation of the coalition cabinet under Hitler.

Von Schleicher had been primarily the man of the industrialists, although he had tried to conciliate the Junkers, the labor unions, and in fact all interests and all parties. It was natural, therefore, that the industrialists' People's party should have supported von Schleicher after all others had abandoned him. The industrialists had placed their hopes in von Schleicher as the "strong man" who could be counted upon to hold the fort until the turn of the economic tide. The understanding between von Schleicher and the industrialists had provided that no radical or fundamental changes in

the economic or political status quo were to be inaugurated during the period of his Chancellorship. The industrialists had hoped that von Schleicher could make some sort of deal with the Nazi leaders whereby in return for some inconsequential cabinet posts a large mass of popular votes would be furnished for a conservative economic policy. At best it was hoped that the support of the entire party could be purchased in this way, and it was thought that at worst some leaders and a large fragment of the party membership could be detached for this purpose. The idea was never entertained, however, that any agreement would be made that would give the National Socialists effective power. The function of the von Schleicher cabinet, as the industrialists understood it, was to hold on, with or without agreement with the National Socialists, until economic revival should have reduced the strength of the National Socialist party below the danger point.

The industrialists always expressed the hope that they could manage the Nazis in case they came to power, just as they had managed the Social Democrats after the "revolution" of 1918. They wished to be absolutely certain, however, that the Nazis should not come to power without having given sufficient hostages to fortune to insure that they could be controlled. These hopes of the industrialists were rendered abortive by the conspiracy of von Papen and his associates. It is extremely doubtful, however, whether these hopes could, in any event, have ever been realized.

Behind the cloud of intrigue, the fundamental force which gave strength to National Socialism was the bitter discontent of the German people with the existing economic system. It was possible to delay the explosion by careful

balancing of the hostile elements in the German economic and political situation against each other, as was done during the governments of von Papen and von Schleicher. It is possible that if a pronounced economic upturn had occurred, this balancing and juggling would have served to prevent the explosion and the National Socialist party might then have disintegrated. So long, however, as the economic misery of the people continued unabated, the fundamental factors in the situation were opposed to a temporary and superficial solution of the difficulties which faced Germany.

The National Socialist party in Germany came to power as the result of a mass movement and not simply as the result of a scheme engineered by industrialists who hated trade unions, or who feared communism. At the moment of Hitler's accession to the Chancellorship there was no immediate danger of communism, and the German industrialists vastly preferred dealing with the "old line" trade unions to accepting completely the Nazi government which the so-called "coalition" government turned out in fact to be. If in some way the disintegration of the National Socialist party could have been brought about and if the economic crisis had continued, then indeed there would have been a probability of serious trouble from the Communists. But this danger was only a potential and not an effective one at the moment when National Socialism gained power.

Von Papen, Hugenberg and their conservative and Nationalist associates in the intrigue against von Schleicher undoubtedly believed that they had been very clever in inducing Hitler to enter a cabinet in which there were only two National Socialist members besides himself. Events were to prove that it was Hitler who had been clever

and von Papen *et al.* who had been tricked.

The commercial and banking leaders in Germany and most of the industrialists had disapproved of the plot to bring Hitler to the head of the government, since they did not believe that so heavy a bribe was at all necessary and they feared it might be difficult to manage the Nazis if Hitler were actually the head of the government. Although the capitalists of Germany felt that the price had been too high, they soon plucked up heart and began once more to consider ways and means of "managing" the Nazis. Perhaps von Papen had driven a clever bargain after all, they told themselves.

On the face of things the National Socialists were the prisoners of the cabinet majority, but Hitler quickly demonstrated that this appearance was deceptive by a series of manoeuvres that gave him complete control of the government. He was able to carry out these manoeuvres, however, because the terms upon which he had insisted as the price of National Socialist participation in the government were all that was necessary to give him command of the situation. If Hitler had agreed to enter any previous cabinet, he would have had to accept von Schleicher as Reichswehr Minister and von Schleicher held the Reichswehr in the hollow of his hand. Now he had been able to get rid of von Schleicher and to secure as his successor von Blomberg, who was bound to the party by close personal ties. Hitler had secured for Goering the post of Minister of the Interior for Prussia, which carried with it control of the Prussian police, and for Frick he had secured the post of Minister of the Interior of the Reich. The Nazis now had a monopoly of the State power of violence. With the addition

of the National Socialist storm troops the power of the party was so great that no other force in Germany could resist its will with the slightest hope of success. It consequently made little difference that all the other Ministries, including those which dealt with economic affairs, were in the hands of non-party members. Henceforth these Ministers must obey Hitler's orders or face arrest.

Hitler consolidated his position by the election on March 5, which he had insisted upon against the heated protests of Hugenberg and the other conservative Nationalists in the cabinet. The burning of the Reichstag building gave the opportunity for excluding the Communists from their seats in the Reichstag and insured an absolute majority for the National Socialists. Hitler then browbeat the parties of the Centre into joining with the parties represented in the cabinet in passing the enabling act which secured him dictatorial powers for four years. In the meantime he had spared no pains to stimulate popular enthusiasm for the régime by means of colorful ceremonies and mass celebrations. Now he was ready to proceed with the measures which the party had always advocated, but which its opponents had claimed were only a part of National Socialist demagoguery.

The measures taken by Hitler and by the National Socialist party from now on were to demonstrate clearly enough that the party had some justification for including the term "Socialist" in the party name. It must have been a rude awakening for both the Junkers and the small group of industrialists who thought they had accomplished the task of taming Hitler and his party. Yet it seems puzzling that the Nazis were able to carry out their radical program while Hugenberg

berg, the most reactionary of men, remained at the head of the Ministry of Economics and the Ministry of Agriculture of the Reich and of the corresponding Ministries in the Prussian government. The Nazis carried out their program for the exclusion of the agricultural products of foreign countries from the German market, their program for a moratorium on agricultural indebtedness and a lowering of the interest rate charged to agriculturalists, with the support of Hugenberg, for in this one direction the programs of Hitler and Hugenberg nearly coincided. For the rest, the Nazis simply ignored Hugenberg, except when some absolutely essential and comprehensive decree required cabinet sanction. Then it was made plain to him what he must do, and he did it.

The great reorganization of industry which the National Socialists now undertook was carried on almost entirely without legislative enactments, or even cabinet decrees. They simply appointed an Economic Commissar for the Reich, who supervised this fundamental reorganization without consulting Hugenberg. What the Nazis considered necessary or desirable they did and wasted no time in worrying about the legality of their acts. Hugenberg indeed issued a timid warning that such acts might change the situation *de facto*, but they could not change the situation *de jure*. But no one paid any attention to him.

It has always been a cardinal point of National Socialist doctrine that all power in the State must be under one control so that the clash of personal and class interests could be prevented. Consequently, in addition to the reorganization of all economic associations, all social, political and even religious bodies were also taken in hand. As a part of the process of reorgani-

zation sweeping changes in personnel were made. By this process of "cleaning" thousands of officials and employes of these associations were replaced by National Socialists or National Socialist sympathizers. This process is still going on, and will probably continue indefinitely.

This reorganization and "cleaning," which the National Socialists called *Gleichschaltung*, and which is perhaps best translated by the word "coordination," was extended throughout the political structure of the Reich by means of the appointment of a Governor (*Statthalter*) for each of the different German States, except in the case of the smaller States, when several were grouped together under one Governor. Care was taken to see that the Governors selected were National Socialists. They were appointed by the President of the Reich upon nomination by the Chancellor, except in the case of Prussia, where the Reich's Chancellor was himself the Governor for Prussia. The Governor was given the power of appointing his own cabinet, which was thus no longer responsible to the *Landtag*. In this way the National Socialists carried out one of the most important steps in *Gleichschaltung* and insured their economic program against opposition by any of the German States.

"Coordination" was quickly extended to all commercial banking and industrial organizations. The directors of the *Reichsverband der deutschen Industrie* (Federation of German Industries), the leading industrial association, were compelled to dismiss its secretary. A commissar was installed by the Nazis, who thoroughly "cleaned" and reorganized the association. This act was a crushing blow to the industrialists. It now dawned on them that their hopes of "managing" the National Socialist revolution,

as they had "managed" the Social Democratic revolution in 1918, were gone. The Nazis had not waited for the industrialists to begin the process of conciliation, persuasion and obstruction that had proved so effective with the Social Democrats. From now on the spokesmen for industry were to be Nazis. The same process was carried out in all other associations, so that in like manner agriculture, commerce, shipping, banking and mining could in the future speak only through the mouths of the National Socialist commissars who had been set over them. The Nazis had taken a leaf out of Lenin's *State and Revolution*, but their technique was superior to that of the Bolsheviks, for the Nazis were able to accomplish their task of securing complete control of the political and economic apparatus without a civil war.

It no doubt appears strange that this process of "coordination" could be carried out without the enactment of fundamental legislation and without encountering the most determined opposition from the capitalists of Germany. Why did not the directors of these associations at least appeal to the courts for redress? The technique of the National Socialists rendered such action useless, and even impossible. They simply notified the board of directors of an association that they wished a new head of the association to be elected and named the man. At the same time all Jewish and other directors considered unfavorable to National Socialism were ordered to resign. If these orders were not immediately obeyed, the recalcitrant directors were arrested and they were fortunate if they escaped only with arrest. The widespread terror, which is one of the outstanding characteristics of the new régime, was very effective in producing a com-

placent frame of mind in directors who had received their instructions from the competent party authorities. It would have required a bold man to have instituted court proceedings against "coordination," when he knew that such action would inevitably have resulted in a call from a Nazi storm troop. Appeal to the courts would have had no result, anyhow, since the courts were also submitted to the same process of "coordination."

The practice which had begun with the general associations was soon extended to the various individual and corporate business enterprises. This movement had begun with the Jewish boycott. Jewish owners and managers of businesses were often ordered to resign and Nazi commissars were installed in their stead. It was customary to order the Jewish managers of business enterprises to discharge all Jewish employes, and if the manager showed reluctance he himself was at once dismissed. However, there were other reasons for which Jewish owners and managers were deprived of their positions, and the movement quickly spread to other than Jewish enterprises. The installation of Nazi commissars to take over businesses became the regular order of the day. These commissars were appointed both from above and from below, some being installed by order of the higher party officials and some by the Nazi labor union "cells" in the various factories, shops and offices. In many cases the leaders of the Nazi trade union "cells" simply installed themselves as commissars without asking authority from the party officials.

While the dismissal of the management by the Nazi labor organizations was sometimes approved by the higher party officers, the movement spread so rapidly and caused so much confusion and interruption of business

and production that Nazi headquarters finally issued a series of orders against the installation of commissars by the workers without permission from the competent party bureau. The practice nevertheless continued, and the orders against the practice became constantly sharper in tone. Goebbels, the Minister of Propaganda, in a public speech in May threatened with prison sentences of six months those who installed commissars without permission. Finally, Dr. Wagener, the Economic Commissar for the Reich, issued an order against the practice and at the same time ordered the dissolution of the numerous "battle unions" that had sprung up all over Germany for the purpose of engaging in direct action on the economic front. Orders were also issued curtailing somewhat the power of the Nazi "cells" and restoring to some extent the authority of the old trade unions since these latter were now under Nazi control.

The action of the party in trying to stop the installation of commissars on the initiative of the workers in factories and other enterprises did not mean that the process of "cleaning" and reorganization was to come to an end. It only meant that an attempt was to be made to regularize the process. The party continued to place great faith in the possibility of improving fundamental economic conditions by removing the directors of business enterprises who, the party felt, could not be relied upon to operate industrial and commercial enterprises in the national interest instead of for the benefit of either the stockholders or the management. It was on account of this faith that the party devoted its first months in power to the task of reorganization rather than to specific measures to solve the problem of unemployment.

Immediately after the great Na-

tional Socialist Labor Day celebration on May 1, the old trade unions were taken over by the Nazis while the principal union leaders were placed under arrest. These unions, of which the more important had been closely connected with the Social Democratic party or with the Catholic political parties, were now united into a "German Labor Front" under the direction of a Nazi commissar. Thus another important step in the process of "coordination" was taken. According to National Socialist doctrine, it was just as important that the leadership of all the labor unions as well as industry should be under party control. With the intention of bringing an end to the conflict of interests between employer and employe and in order to introduce the principal of authority into the labor movement to replace democracy, district "trustees" were appointed to establish wage rates in their respective districts.

It remains to be seen, however, whether these measures will bring about a state of industrial peace. So far the Nazi labor "cells" have shown themselves to be much more radical than the old "Free" or "Christian" labor unions were. This was to be expected. Before the triumph of the party the more conservative workers had remained in the old unions and the Nazi "cells" had consequently to be recruited mainly from the unemployed and from the more radically minded laborers, who in many cases were former Communists. Although the Nazis face no such problem of restoring labor discipline as was the case in Soviet Russia, a certain problem does exist and will demand both discretion and energy to be solved.

The National Socialist party intends that all who are engaged in any form of economic activity shall belong to an organization which shall represent the

industry, trade, profession, art or business in which they are active. These organizations are to be incorporated within a general State structure modeled to some extent on the Italian Corporative State. But the National Socialist organization of the State will of necessity be much more comprehensive and complex than the Fascist, since Germany is so much more highly industrialized than is Italy. It is the aim of National Socialists that none except Jews shall remain outside these organizations and that there shall be no form of human association that is not completely dominated by the party.

Rapid progress is being made in this direction since the old associations, after amalgamation, rationalization and "cleaning," are being utilized as the basis for the new. Through these associations it is hoped that a new spirit in economic life can be created along the lines of the old craft guilds. Some of the associations, however, have from the first shown a tendency to advance the interests of their members at the public expense, so that something other than the gild spirit will have to be employed to protect the public interest.

Apart from the complete reorganization of the economic structure which the National Socialists are carrying out in record time, direct action to bring about economic improvement began with agriculture. Measures have been taken to insure that the German market for foodstuffs shall be reserved exclusively for German farmers. The goal has been set for complete self-sufficiency in food production as necessary for both military and economic reasons. It is a goal that can probably be attained. Inevitably the restriction upon food imports will result in tariff retaliation and in a vanishing export surplus, without which

foreign indebtedness cannot be paid. But the Nazis are not inclined to worry about this. Measures have also been taken to lower the interest rate on farmers' debts and to prevent foreclosures on agricultural property. This has been done by compulsory conversion of loans to agriculturists and special moratoriums. It is intended to prevent agricultural property from being burdened with excess debt in the future. To this end inheritance laws are to be changed so that homesteads will not be encumbered for the purpose of dividing the inheritance.

Unemployment was first dealt with by the decision to introduce a year of compulsory labor for German youth. Since some time was required to place the scheme in operation, and since the attention of the party leaders was concentrated elsewhere, it was only in June that plans were announced for a more comprehensive and direct attack upon the unemployment problem. Treasury bills to the amount of 1,000,000,000 marks were provided for a great program of public works. The men to be employed are to receive only their out-of-work pay, one hot meal a day and a small sum in addition, which can be spent only on household necessities. In addition to the public works program, special deductions from income taxes are to be allowed to individuals or corporations who employ additional labor and to families who employ maid servants. A loan of 1,000 marks is to be extended to newly married couples for the purchase of household furniture and utensils. The wife, in case a loan is granted, undertakes not to accept paid employment unless the earnings of her husband fall below a certain low minimum. The loan is to be repaid at the rate of 1 per cent per month. Both these last mentioned measures seek not only to relieve unemployment but also

to withdraw women from industry.

The issue of treasury bills and the remission of taxes will obviously have an inflationary effect. The National Socialists are, however, only following a tendency common to all countries. Moreover, since the wages paid on public works are so low, a relatively large number of men can be employed with the funds appropriated. Needed funds are to be advanced without interest to communities that desire to carry out a program of public works. Some positive results will probably be obtained from this program.

The first few months of National Socialism in Germany have demonstrated very clearly that the movement has a significance quite other than that of a coup d'état engineered by capitalists to save themselves from

worse evils. The new order now being set up is assuredly quite different from any previous form of socialism. Yet it is doubtful if the new system can properly be considered a form of capitalism. The writer is inclined to believe that the National Socialists are in the process of setting up an economic and social order on a new model. Whether or not the new mechanism will operate successfully or indeed whether the construction of the new mechanism will ever be completed, depends upon whether or not the fanaticism of the leaders and the masses of the party will tolerate the internal and external peace that is so sorely needed if this economic and social experiment is even to have a chance of being put to a thorough test.

Austria Resists Nazi Imperialism

By B. Z. GOLDBERG

[A close student of European diplomacy and a writer on international affairs generally, Mr. Goldberg contributed one of the two articles on "The Seeds of Europe's Next War" to the May issue of this magazine.]

ONCE more, with a most anxious world looking on, little Austria finds herself in the throes of a bitter conflict over *Anschluss*, that is, union with Germany. Hitherto, the world has been apprehensive because of Austrian enthusiasm for such a union. Today, the peril lurks in the opposite direction—German determination to impose the union upon an unwilling Austria. And Engelbert Dollfuss, the Austrian Chancellor, is face to face with the most formidable political job in Europe to hold intact the Austrian dykes until the Nazi flood waters to the North have subsided.

Austria's change of heart on *Anschluss* is as definite as it is recent. From the days of the peace treaties she courageously supported the movement for Austro-German union. When Dollfuss came into power in May, 1932, he openly advocated it. His support was derived from a coalition in which the Heimablock, the Fascist party, held a majority of one vote. The leading members of his Cabinet were Pan-Germans. He himself was not averse to Nazi ways. He fulminated against the Social Democrats. He insisted that "our voters need uniforms, parades and banners." He advised the Christian Socialists that "anti-Semitism is a most popular slogan."

But within a few months this diminutive Hitler in embryo had turned

his back on Hitlerism. His ardor for *Anschluss* cooled at the prospect of a \$42,000,000 loan from France and her allies. It waned even more as the Hitler star rose higher in the German firmament. It dropped to zero with the establishment of the Third Reich. Today Dollfuss stands in open opposition to *Anschluss*, a small but steadfast stumbling-block in the path of Nazi imperialism.

As Austria reversed her stand on *Anschluss* with the victory of Hitlerism in the Reich, so Germany also altered her attitude, but in exactly the opposite direction. Democratic Germany had given little thought to union with Austria after the summary dismissal of the Austro-German customs project in 1931. With the defeat of Curtius and Schober, *Anschluss* was relegated to the realm of suppressed desires. There it remained until Hitler picked it up and injected it into the official Nazi program. The first point of this program demands "the union of all Germans in a greater Reich in accordance with the right of self-determination."

The Third Reich, therefore, is intent upon effecting the *Anschluss* at once. It sought to do so first through diplomatic channels—by joining with Italy, Hungary and Austria in a united Fascist front across Central Europe. But since Premier Mussolini put a damper on such aspirations, it has determined to achieve the union by forcing a Nazi régime upon Austria. As the Austrian Nazis belong to Hitler's party in Germany and take their orders from Berlin, a Nazi vic-

tory in Austria would mean the *de facto* union of the two countries. And the *Anschluss* would be brought about without breaking the peace treaties or subsequent agreements.

To this end, Hitlerite Germany has spent huge sums of money, frequently estimated at \$6,000,000, on Nazi propaganda in Austria. Agitators poured across the border, and in every province the ablest of Hitler's emissaries used every means at their disposal without scruple. Bombings and assaults became almost daily occurrences until the Dollfuss government, on June 19, put a ban on all Nazi activities in Austria and expelled the last of the German Nazi organizers.

There is good reason for the Nazis' desperate attempt to force the *Anschluss*. As already pointed out, it is part and parcel of their imperialist program. Having proclaimed the racial unity of all Teutonic peoples, they are determined to realize this unity in a great German Reich. But more immediate is their concern over the isolation into which their crass stupidity in foreign policy has precipitated them. Hitler's record in this field has been one succession of failures. That does not exclude his signing of the Four-Power pact, for thereby he actually agreed to guarantee the permanence of Germany's present frontiers on the east, a thing that previous governments, even the most liberal, always refused to do. To cover up his blunder and bolster Nazi prestige at home, Hitler is urgently in need of some success abroad. Hence his sudden concentration in the direction of Austria.

But Chancellor Dollfuss is answering fire with fire. Against the militant Pan-Germanism of the Nazis he is stirring up a vigorous Austrian nationalism. The press, radio, lecture platform and schoolroom all have

been drafted to spread the gospel of Austria's mission as an independent State. Every nook and corner of the country is plastered with the *Wand-Zeitung*, or national wall newspaper, a broadside published frequently by the Dollfuss Cabinet. In bold black and scarlet letters it proclaims the rebirth of the Austrian national spirit and exhorts the people to fight the Nazi giant. "We prefer to remain small but free," War Minister Vaugoin was recently quoted as saying in the *Wand-Zeitung*. "Austria will not be a colony of Hitler." To demonstrate this independence, the army uniform, which resembles that worn by the German Reichswehr, is being exchanged for the uniform of the old Austrian Empire.

Chancellor Dollfuss is upholding Germanism as an international cultural force rather than a national political weapon. Speaking at Salzburg, early in May, he said: "Austria always has had a special mission. We gladly acknowledge our German race, but racialism cannot be allowed to become an idol for worship." And in an interview on May 29 he stated: "At least 60 per cent of the Austrian people now want to remain Austrians."

To curb the onslaught of the Nazis that followed Hitler's victory early in March, Chancellor Dollfuss gave them a dose of their own medicine. Resorting to dictatorial rule, he dissolved Parliament, abolished freedom of speech, press and assemblage, put an end to Hitlerite propaganda on the radio, and prohibited the wearing of the Nazi party uniform. Since then he has adopted even more drastic measures. Late in June he outlawed the Nazi party and forbade the Nazis in Austria to engage in any political activity, to form any other political party, or to wear the swastika or



Austria and Her Neighbors

other party emblems. To tighten his hold upon the States of the Austrian federation, he placed them under special Commissioners of Public Safety, and required all State employes, both active and retired, to take a new oath of loyalty to the government.

All this was done with the quasi-acquiescence of the Social Democrats, who prefer the fascism of Dollfuss, distasteful as it is, to the National Socialism of Hitler. In April the Social Democrats dealt the *Anschluss* movement a blow of their own by withdrawing their support from it. Much as they desired to join the Republican Fatherland, they bitterly oppose union with the Third Reich.

Anschluss has always been wrapped in a halo of idealism by Germany as well as Austria. Both see in it the realization of their age-old dream of Pan-Germanism and the fulfillment of their cultural mission in the world. Yet, at the same time their attitude toward union is guided by practical considerations of politics and economics.

When Bismarck was forging the modern German State, he could have had Austria for the asking. But he

decided against the union. Austria was Catholic. He wanted to make Protestant Prussia supreme. It would not do, therefore, to strengthen the large Catholic element in Bavaria and the Rhineland. Moreover, Austria was cosmopolitan. And Bismarck was building a great Teutonic nation. He did not want her patch-work quilt of races. He feared that they might be a disintegrating force within the Empire. So he bluntly informed the Austrians that they could serve the national cause more effectively by remaining outside.

Austria likewise was guided by practical considerations. She was no match for the Prussians, but she easily outshone the Slavs and Magyars. She supervised their government, financed their business and industry, and ministered to them in material goods as well as in cultural values. She preferred to be first among them, rather than last or one of the last among the German States. Besides serving as the German bulwark in the East, she was the staunch defender of the Roman Catholic Church, and faith took precedence over nationality.

At the end of the World War, however, conditions were reversed. Germany was no longer the Prussian stronghold of old. Austria had lost her non-Teutonic provinces. All practical considerations pointed to their union. For Germany it would have opened the way to new power and glory in the southeast. What had been a dream in the days of her might—the Berlin-to-Bagdad trek—seemed near realization in defeat. For Austria union appeared to be a matter of life and death. Shorn of her markets and resources, she had become an economic absurdity, incapable of existing alone. Her first impulse was to throw herself into the arms of her racial brother and companion in misery. *Anschluss* was proclaimed by Dr. Karl Renner, the Austrian Socialist leader, at the same time that he announced the birth of the Austrian Republic. The provisional Constitution of the German Republic also provided for union.

But the Allies, at the instigation of France, promptly put a check on the proposed union. Provisions against it were inserted in the Treaty of Versailles and the Treaty of St. Germain, but they failed to eliminate the problem. *Anschluss* became the trump card in Austria's political game and a powerful weapon in the hands of Dr. Ignaz Seipel, the astute clerical leader of the post-war decade. Its popularity rose and fell with the tides of Germany's prosperity and prestige. When Germany was prospering, Austria desired to share in that prosperity. When bad times overtook Germany, Austria looked elsewhere for assistance. That is still true. At present Austria has more to gain from foreign aid as an independent State than from union with Hitler's Reich. *Anschluss* today would mean the curtailment of labor's

power and freedom, government control of capital, overlordship of the Catholics by Nazi firebrands—all for economic benefits that, at best, would be most precarious.

Can Austria continue to stand alone? Chancellor Dollfuss optimistically answers "Yes." In an interview on May 14 he said: "I believe Austria can live alone. I was an economist before I became a politician and I saw this: let world conditions improve, let us have markets and reasonable facilities for the discharge of our foreign debts and Austria can stand by herself, as Switzerland does." But up till now Austria has not lived alone. Immediately after the establishment of the republic, she was forced to seek foreign aid. During 1919 and 1920 she was given some \$72,000,000 in food credits. In 1921 she obtained foreign assistance to the amount of \$30,000,000. In 1922 Seipel rescued her finances by practically forcing a loan from the Allies. Through the League of Nations he obtained some \$26,000,000 for rehabilitation purposes. In 1930 the League arranged a twenty-seven-year loan of \$102,000,000. In 1931 Great Britain and the Bank for International Settlements extended substantial credits. The twenty-year loan of \$42,000,000 provided for in the Lausanne Protocol of 1932 is still unpaid, but it will go largely to the settlement of outstanding obligations.

Meanwhile the very thing on which Austria is most dependent—her foreign trade—has dwindled rapidly. The total turnover for 1932 showed a shrinkage of 38 per cent from that for 1931, with the exports declining more than the imports. This decline is due in large measure to obstacles, such as foreign exchange regulations and prohibitive tariffs, that have been placed in the way of international and particularly Central European trade.

Austria has been especially hard hit in the last three years, because her exports are largely luxury articles, the markets for which have been practically obliterated.

That Austria could not stand alone was evident even to her enemies at Versailles. In the exuberance of victory they did not forget Palacky's dictum, "If Austria had not existed, it would have been necessary to invent her." They attempted to invent an economic Austria. In April, 1919, Lloyd George proposed that Austria should conclude a series of preference treaties with her neighbors. But his suggestion was overruled. In 1921 a similar provision was included in the Treaty of St. Germain. By Article 222 of that treaty Austria, Czechoslovakia and Hungary were to be allowed to unite in a special preference system for a term of five years from the enforcement of the treaty, irrespective of most-favored-nation treaties with other powers. But Italy objected. In 1923 still another attempt was made, but without avail. Thereafter the matter was dropped until 1932, when Austria's desperate condition led Premier Tardieu of France to draw up a plan for Danubian union. By a series of preferential agreements he proposed to restore the economic unity of the Dual Monarchy and expand it to include the whole of Austria, Yugoslavia, Czechoslovakia, Hungary and Rumania.

From the economic standpoint this plan seemed sound enough. The Austro-Hungarian Empire, with its 56,000,000 inhabitants, had been a fairly compact and self-sufficing entity. Protected by high tariffs, it absorbed the greater part of its own agricultural and industrial products. Its total exports were less than those of Czechoslovakia today, although that country is only one-fourth as large as the em-

pire in population. But that was before the disintegrating force of economic nationalism set in. After the break-up of the Habsburg realm, each of the Succession States, imbued by racial hatreds and political animosities, set out on the road to self-sufficiency, and sought new markets far beyond the boundaries of the empire. Czechoslovakia and Rumania, for instance, substituted Germany for their old markets within the empire. Other countries turned to Great Britain and Italy. As a result, 65 per cent of their trade now goes to countries outside the Danubian area.

Moreover, the industrial States have strained every effort to develop agriculturally, while the agricultural States have built up their own infant industries, encouraged by high protective tariffs. The consequence is economic stagnation and wasteful dislocation of the little trade that does exist. To remedy this condition, Tardieu proposed to coordinate these States and bring about a free exchange of goods within them. Once the channels of trade were reopened, he reasoned, economic rehabilitation would inevitably follow.

Politically, however, the Danubian plan presented serious difficulties. The Succession States were the wards of France. Their economic union, sponsored by France, would naturally strengthen French hegemony. That would be anathema to Italy as well as to Germany. Furthermore, both these countries have close trade relations with the Succession States, and they would not consent to a Danubian economic union from which they were excluded.

Italy, on the other hand, has her own plan to work out in Central Europe. In economic matters she prefers to deal individually with the Succession States. Politically, she would

like to see a restoration of the Dual Monarchy. This is far afield from the Italian policy of pre-war days. At that time *Anschluss* was not an imminent possibility, but between *Anschluss* and the Habsburgs, the latter certainly are preferable. Italy does not want the Nazi Reich encroaching on her frontiers. She fears the effect of its ardent nationalism upon her 500,000 German subjects in the South Tyrol. Moreover, since she has courted the friendship of Hungary and given support to Prince Otto, the Habsburg heir, she feels that she can rely on the friendliness of a revived monarchy, retain it under her influence, and keep it from becoming too powerful in its own right.

In any monarchist move Italy would have the warm support of the Austrian Catholics. The restoration was Seipel's perpetual dream. In Hungary there is also a strong legitimist movement. That country is still a kingdom, and the monarchists are gaining power as the threat of Hitlerism looms larger. Hungary fears a powerful Reich reaching out once more to the southeast.

Anschluss would solve Austria's economic problem only in the sense that the little country would be swallowed up by the huge economic machine of Germany. As it is, Germany is Austria's best customer, while Austria exports to her more than \$30,000,000 in excess of what she imports from the Reich. Historically, Austria's economy is keyed to the rôle of a middleman for the entire Balkan territory. What she needs is larger scope for her commercial and banking facilities. She would not obtain

that through union with Germany. Joined to the Reich, Vienna would be relegated to the status of Munich or some other provincial town. On the other hand, should Germany eventually realize her ideas of an expansion to the southeast, Vienna would reap the benefits of the frontier trading post from which much of the business activity in that direction would be carried on.

But Austro-German union is a long way from realization. France will never countenance it so long as she retains her superiority in Europe. Italy, too, is set against it. Czechoslovakia dreads it as death itself. For that country it would mean being almost completely surrounded by a hostile Germany, if not the break-up of her Provinces. In fact, *Anschluss* and Pan-Germanism would completely upset the present arrangement in the whole of Central Europe.

Any one of several solutions proposed for the problem of Austria might be made to work out economically. But all are complicated by political considerations that would have far-reaching effects throughout Europe. Before Austria's economic problem can be finally and definitely solved, these political considerations must be removed. That could be done by internationalizing the country and setting it up on the same basis as Switzerland. Once her independence had been insured and her neutrality guaranteed, Austria could work out her own economic salvation, joining in customs unions with any of her neighbors. Her internationalization would be the best guarantee of peace in Central Europe.

Do We Need Private Bankers?

By N. S. B. GRAS

[The writer of this article was Professor of Economic History in the University of Minnesota from 1918 to 1927, and since then Professor of Business History at Harvard. Among his books is *Industrial Evolution*, published in 1930.]

PERIODICALLY the ogre comes back to devour the innocent. This time it is the great banker, the private banker withal, who is seldom seen or heard except under dramatic circumstances. In his lair on Wall Street he is supposed to feed upon laborers, the debtor middle class and even the unfortunate among his own group of capitalists. He is pictured as carrying off as plunder not only factories and ships but whole railroads and power plants. With these he plays as a child with toys—to operate or to destroy at will.

Actually, in sober history, the private banker has been a more or less constant factor in business since the thirteenth and fourteenth centuries. Moreover, his appetite, while adequate, has not been excessive, if we take into account the hazards of his existence.

Probably the private banking class that has come down to the present arose in Italy and Spain first, and then gradually in other countries as commercial towns attained wealth and importance. From first to last the private banker operated under a minimum of regulation, and he has preferred to do his work alone or in partnership. The joint-stock company, incorporated, has not appealed to him. He has liked the idea, as have his clients, of the element of personal responsibility.

Of course, these private bankers, whether developing out of money lending or out of merchandising, took deposits. In the Middle Ages they paid interest on deposits only when they were eager to get funds. They bought and sold gold and silver, handled bills of exchange, transferred credit for merchants and travelers and advanced money to private persons and public authorities. They gained distinction or special notice only when some great event occurred, commonly a disaster.

In more recent times, the Rothschilds, a family of private bankers, were one of the chief financial powers in nineteenth-century Europe. In lending money to governments and in floating securities they were outstanding. Though conservative and trustworthy, they lost both power and prestige in the World War. Perhaps, if they had established a branch in New York instead of depending only on an agent there, they might have retained some of their former influence and wealth. If they had settled on Wall Street they might have been the leaders, in the place of Kuhn, Loeb & Co., of the group that stood out as the chief competitors of J. P. Morgan & Co.

In America the private banker had a growth that was largely his own; he was indigenous to the soil. S. and M. Allen (1815-37) had partnerships in New York, Philadelphia and other cities for the sale of lottery tickets and for dealing in banknotes, commercial paper and foreign exchange. E. W. Clark & Co. of Philadelphia

performed similar functions for the period of 1837-1857, but it had more branches and was more active in the sale of securities. Although the firm still survives, its period of notable achievement ended with the panic of 1857, which destroyed its system of branches.

In business history, experience has a habit of surviving where firms are wrecked. When the Allens went down in the panic of 1837, they left behind E. W. Clark, who had gained experience with them. When the Clark system closed in 1857, Jay Cooke was ready to carry on the practices he had learned with the Clarks. And when Jay Cooke failed in the panic of 1873, his son-in-law established a firm which still exists in Philadelphia and New York.

Jay Cooke was not an ogre; he was a friendly giant. He financed the Civil War in its darkest days, and he did it by appealing to the people directly. He was in fact a prince of advertising. After the war, opportunities to do big things were limited. But Cooke went ahead in a big way, thinking he could finance the construction of the Northern Pacific, even before there were people in the district to use the railroad. Neither Baron Rothschild nor J. P. Morgan Sr. would join Cooke. It is probably not far wrong to say that Cooke was not a great banker, but he had a feeling for popularity which bankers as a class have not possessed. To this day both private investment and public commercial bankers are embarrassed in the face of the populace. So long as this continues both bankers and the public will suffer.

It was J. P. Morgan & Co. that succeeded Jay Cooke as the dominant house in the security field, but Morgan did not continue Cooke's relations with the public. Morgan was a man of few words and great courage; when

he had decided, he acted. The chips might fall as they would.

Let us remember one thing about the Morgan of early days. He had been primarily an international banker. He had dealt in foreign exchange and had sold American securities abroad. When those securities did not pay a dividend, Morgan was deeply concerned. Morgan's chief pride was in his integrity and trust. If an American railroad ceased to pay dividends or defaulted on its bonds, Morgan's reputation was at stake. This meant, of course, that his clientele would not be so ready to trust his offerings next time. To protect his sale of securities abroad, Morgan interested himself in an active way in the conduct of American business, not only after the crisis of 1893 but after that of 1884. This change in policy is a major development in American business history.

In both private investment banking and public commercial banking the change from passive to active participation in the affairs of customers is an outstanding development on the side both of financial control and of public relations. We see it working itself out in Germany after the formation of the empire in 1871, when Germany saw ahead of it a great world of commercial conquest. The ambitious empire had vision and technique but it lacked capital. Only by a judicious use of credit could the commercial possibilities be realized. Consortiums of banks made heavy loans, often borrowing abroad, to help German manufacturers of chemical and electrical products, German iron and steel manufacturers, ship-builders and operators, and so on. Before these loans would be granted, a director was often put upon the board of the borrowing concern. The intention was to insure the investment of the bank.

How much of a future this control

of industry by banks has in store for itself remains to be seen. Certainly the Bank of England has recently planned an active participation in the affairs of British industries chiefly in the interest of modernizing factories and stores. Here we have one special form of the capitalistic system. A few bankers, operating with other people's money, undertake to control industry, transportation and commerce. Where private business fails, these super-business men step in to correct and direct. Great is the chance for success or failure, approval or disapproval. Here is the newest form of high finance, the highest pinnacle of individualism and capitalism. Here is the money power on its throne.

J. P. Morgan & Co. saw American railroads mismanaged by buccaneers, and objected. They saw these roads, the securities of which they had sold abroad, mismanaged in the ruthless competition of the day. They saw manufacturing concerns in which they had invested and in which they had interested other people, threatened by ruinous competition such as Carnegie was able and ready to carry through. Among the railroads, to take but one example, Morgan was instrumental in building up the Hill lines—Northern Pacific, Great Northern and Burlington. In the case of industry he erected a monument to himself in the United States Steel Corporation.

It is not to be assumed that Morgan had an easy time in dealing with the various industries and firms that he sought to control. His opponents were frequently more clever than he, or quite unscrupulous—for instance, Fisk and Gould in early days and Harriman and Gates later. There is little doubt that both Gates and Carnegie outmanoeuvred Morgan. Harriman, backed by Kuhn, Loeb & Co., was able to establish a great system in

the Southern Pacific Railroad, even though he lost the Burlington to Hill and Morgan. On the whole, I think we can say that Morgan's victories came fundamentally through the fact that the firms which he sought to merge were losing money either through a vicious competitive system or through incompetence and dishonesty.

As long as Morgan was bringing about economies and checking death-dealing competition, he was entitled to applause, but when he turned to comprehensive regional transportation systems and national mercantile marine aspirations, he might be regarded as going too far or at least too fast. He succeeded for the moment in combining railroads, electric transportation and coast steamships in New England, but public opinion and law were against his plans, and the whole system was disbanded. To be sure, there may come a time when the same kind of solution will have to be adopted, but certainly, when it is adopted, the people concerned will have to be a party to it and the price paid for the individual units should be commensurate with their earning power. When Morgan wanted a thing, whether a beautiful painting or a railroad, he would pay almost any price. His extravagance is exemplified by the purchase of the steamship lines which he put together to form the International Mercantile Marine Company. Moreover, Morgan did not realize all the difficulties that confronted America in resurrecting its overseas fleet of merchantmen.

Morgan reached his height in 1907, when some of his enemies went down in the panic and when he and his friends stood like a Gibraltar of strength. He had now all but perfected his system as an institution. With his firm as the centre, he exerted great power over railroads, industrial

corporations and steamship lines. Commercial banks and insurance companies—the biggest in the country—were in the Morgan camp.

Even before many commercial banks had security affiliates, they were in friendly relations with Morgan. The First National Bank of New York, the Guarantee Trust Company of New York and the National City Bank of New York have been outstanding examples of commercial banks working in close relations with Morgan & Co. Although the Federal Reserve Act threatened this relationship somewhat, it was reinforced by the development of security affiliates. American bankers have had a long experience in adapting themselves to the laws. When George F. Baker was asked in 1913 why he had established the First Security Corporation in 1908, he replied that it was to conform to the law, not to violate it. That is, the law prevented his bank from doing a general security business; so he was obliged to form a separate corporation to carry on that business.

The financial group of private banks, commercial banks, insurance companies, railroads, industrial corporations, and so on, was held together by a community of interest. It was an economic empire within a political State. The strength of the group lay partly in the wealth of the members, but much more in the system, which was based upon the ability of its leaders and the confidence which big business felt in Morgan.

Let us not deceive ourselves into thinking that Morgan alone was responsible for the great system that he had built up. The nation's industrial leaders had come to feel the need of a powerful hand to prevent the wastes inherent in competition. Morgan believed that he was serving the people, but that service came through the

great corporations. We cannot help comparing this superstructure of financial control with Law's system in France (1716-1720). One outstanding difference, however, was that, while Law's system, backed by the monarchy, was imposed upon an astonished country, Morgan's system was formed in answer to obvious needs for the meeting of which there existed no power in democratic America except his own.

When Morgan & Co. are spoken of as synonymous with Wall Street, the real situation is somewhat perverted. Morgan & Co. have never been the sole power in the Street. In the days before the Federal Reserve System there was a duality of control that was often commented upon and frequently observed in operation. The second power was Kuhn, Loeb & Co. and its allies. Following the lead of Morgan were Lee, Higginson & Co. and a host of other concerns in New York, Chicago and other cities. In the same camp with Kuhn, Loeb & Co. were Kidder, Peabody & Co., Seligman & Co. and many others. It is only fair to add that the members of these rival groups often cooperated or formed new alignments as circumstances indicated they should. In recent years Wall Street has claimed a plurality of interests instead of a duality, but it may be that fresh rivalries will bring back, or have already brought back, the old duality.

In 1913 Morgan was investigated and his money trust challenged. He died soon thereafter; and it was best thus, because in that very year the Federal Reserve Act was passed to decentralize the banking power of the nation. The act aimed, in part, at keeping the balances of the thousands of banks, scattered over the country, in the regions where they were located, instead of being sent to New

York, where they came into the control of the big commercial banks, influenced by Morgan, or into the hands of the private bankers themselves. It is true that the act did not do much to decentralize deposits, but such appeared to be the effect at the time. The star of Morgan Sr. seemed to be setting just before his own light went out.

Then the firm's dramatic return to power occurred upon the outbreak of the European war. J. P. Morgan & Co. helped to finance England and France. Larger profits came to reward the company, and also the feeling of almost complete dominance in Wall Street. The German group in the Street and its Rockefeller allies were for the moment under a cloud. Morgan was the great American factor in the world of gold, munitions, ships and credit.

When peace came, the Morgan firm got at least its share of the foreign-loan business. In order to sell American goods abroad, enormous credits were extended to foreign provinces, cities and firms. This was done by selling in America vast quantities of German and other European as well as South American bonds. Morgan & Co. was one of the chief originators of bonds which were eagerly bought by an optimistic and opulent America.

The firm of Morgan & Co. was not behind the times in getting into the field of public utilities. Gigantic holding companies were formed to take over local and district gas and electric power concerns, some of the latter owning water-power rights. This seemed to make the Morgan system complete. Not only did Morgan and others control much of the people's money but they had their hands on the natural resources of the country.

The financial panic of 1929 threatened Morgan & Co., as it did other

bankers. Morgan & Co. tried to stem the tide, but America had grown since 1907 and Morgan had weakened relatively. The tide turned out to be a tidal wave, but Morgan & Co. survived and aided their friends. Of course, the system still lives. The investigation of 1933 shows nothing essentially new about Wall Street or about Morgan & Co. or about private bankers. It does show, nevertheless, how popular representatives react periodically when depressions occur. The investigation has been useful in supplying fresh details for the records, in giving relief to pent-up feelings and in providing data for new tax laws.

The private bankers are a strange phenomena to country bankers who know them not, to rural leaders and to radicals who think emotionally. They have made colossal mistakes. Instead of being wiser than the people, they, the leaders, had been no less foolish in 1923-29 in their attitude to foreign bonds. But there is no question of integrity. In the efforts that have been made to bring order out of chaos, however, the private bankers, Wall Street, if you will, have been far ahead of the representatives sent to Congress. In the period of 1887-1914 Congress prohibited certain kinds of competition, such as Rockefeller had been engaging in, and yet it insisted upon competition as a whole and prohibited trusts, combinations and other kinds of monopoly. For long years there was no distinction between good and bad trusts, and no rule of reason. Legislation reflected the feelings of small amebic business units and the debtor class, and it is well that something gave them support in a changing economic order. But it stands out as a beacon of truth that Wall Street was economically progressive. As long as this remains true, it will be sound policy to think twice before destroy-

ing such an institution, though experience indicates that it must at times be checked.

Federal laws have sought to continue anti-social competition, while Wall Street has been trying to check it. Some who would concede this, say yes, but they have exacted too high a price in profits for themselves. So far no evidence has been produced to prove this, but still it may be so. We lack both facts and yardsticks.

The work of coordination, started by Morgan & Co. in the 1880s, is now being taken over by the government. Individualism has tended to run amuck. The big private bankers turned to remedy abuses. The labor, farmer and intelligentsia groups would have none of this at the hands of Wall Street bankers. Perhaps these bankers were at fault in holding themselves so far aloof from the populace and in refusing to concede that customers and laborers, as such, have rights as deep and undeniable as stockholders have.

Long ago Marx foresaw the rise of big business and the tendency for the units to become even larger until they were taken over by the State. Without any social theory, Morgan & Co. and the other private banks turned to meet the day's need in business by preventing cut-throat competition. Perhaps the ideal would be two or three big concerns in each industry—the United States Steel and Bethlehem in the iron and steel industry, the General Electric and Westinghouse in the electrical industry, Ford and General Motors in the automobile industry,

General Mills and Pillsbury in flour milling, Armour and Swift in meat packing, and so on. And then, at the head of all these units, as a super-business group charged with the problems of finance, there would be two big groups of bankers such as Morgan and Rockefeller, however, an alternative solution feller group and their supporters. I cannot see that private industry has any other solution to the grave problem of balancing supply and demand. One great merit of this would be that the advantages of competition, notably progress in technique and management, would continue.

In answer to the demands of a downward trend of prices and business, however, an alternative solution of government control through trade associations and trade unions is now at hand. This means that a Congress ill-equipped to handle such problems, will be for a period in control and that marginal firms and inefficient workmen will set the pace of industry.

If any social philosophy is required at this stage perhaps the following may be suggested. As in times past, so now, we have two alternatives, the best of each of which should be allowed to take root. In times of the upward swing of business and prices the private banking system or a substitute should prevail; while in times of major depression the government alone can provide the necessary solutions. Each will be a relief to the other. Neither will win. Marx was wrong. A choice of systems is best, as the hand of progress swings threateningly back and forth.

Soviet Russia's Fight for Food

By WILLIAM HENRY CHAMBERLIN

[The writer of the following article has been for over ten years Moscow correspondent of *The Christian Science Monitor*. He is the author of *Soviet Russia* and *The Soviet Planned Economic Order*, and is now writing a history of the Russian revolution for which he was awarded a Guggenheim Fellowship.]

THE visible and unmistakable sign that something is wrong with Russian agriculture is the existing food stringency. In a country that is naturally suited to the production of almost all the staple foodstuffs, a rationing system has prevailed in the towns for years. Conditions in some rural districts, where crops have been short and State grain requisitions ruthless, are much worse than in the meagerly rationed towns, even though reports of wholesale death from starvation may be discounted as grossly exaggerated. Probably the outstanding problem that confronts the Soviet leaders today is the food shortage, so that further industrial progress under the second Five-Year Plan depends largely upon the success with which that crisis is met and overcome.

Most of the anecdotes which circulate in Moscow express the irony of a hungry people. There is the conundrum, "Who are the greatest eaters in the world?" to which the answer is: "The Russians, because they can easily eat up a week's rations in a day." Then there is the imaginary debate about the efficacy of the American and Soviet political systems. "Think of it," says one disputant. "Congress has taught the Americans not to drink." "That is nothing," is the reply. "The Soviets have taught the Russians not to eat."

The amount of food available for individuals has diminished rather than increased since the rationing system was introduced during 1928 and 1929. In Moscow, for instance, during the first years of the system, meat was sold to holders of ration cards pretty regularly at the rate of half a pound for a manual worker and a quarter of a pound for a brain worker every other day. By 1932, however, meat was a rare luxury. In the same way the sugar allotment has been cut down from over three pounds to a little over one pound a month. The situation is relieved for some classes of workers and employes by the provision of hot meals of varying quality in factories and offices, while, at least in the larger towns, children are given some extra food on special cards and have hot breakfasts in the schools.

Whether one takes as an index the meager and diminishing amounts of food which are available on individual cards, the increasing strictness of control or the skyrocketing of prices in the private markets, where a pound of butter costs the equivalent of several days' wages of an average worker, the food situation is unmistakably more strained than in 1928, when the Five-Year Plan went into effect.

The causes of Russia's food shortage are various. During recent years the cities and industrial towns have been growing abnormally fast, partly as the result of the erection of new industrial plants, partly because many people moved into the urban centres in the hope of finding a better supply of food and manufactured goods. As a

result of the enormous amount of new construction and the necessity for moving vast quantities of building material and supplies, the Soviet transportation system has been chronically overstrained. Every year there is a heavy loss of perishable food-stuffs for lack of adequate shipping facilities. Moreover, the government's single-minded concentration upon the goal of rapid industrialization has led to a policy of forcing up the quantity of exports, even of badly needed food products, in order to obtain foreign currency to pay for imports of necessary machinery and equipment.

But the basic cause lies in the agricultural output itself. Here, more than in any other branch of the national economic life, production has fallen far short of the Five-Year Plan estimates. The last year of the plan called for an output of 100,000,000 tons of grain. The Soviet authorities have not published the results of the 1931 and 1932 crops, but there is good reason to believe that in both those years the output fell far below that in the exceptionally favorable year 1930, when over 80,000,000 tons of grain were harvested. Instead of a projected increase in the number of horses, sheep, pigs and cows there has been an enormous decrease. During the Winter of 1929-1930, the peasants slaughtered live stock on a wholesale scale, in part as a protest against the rough methods sometimes employed to induce them to join collective farms, and in part because the State requisitions often left them without enough grain for their own food or for fodder.

Communist policy throughout the last five years has been aiming at a fundamental change in the character and organization of Russian agriculture. Until 1928 the small peasant proprietor, with a holding of twenty or thirty acres, was the typical figure on

the Russian countryside. Big landlords had been wiped out; the kulaks, or richer peasants, had lost much of their property in the revolution; and State and collective farms were of relatively small importance. Yet the Soviet leaders looked on small peasant proprietorship with disfavor: first, because it fostered individualist, property-owning instincts among the peasants; second, because small farms, divided, as were most Russian farms, into little strips, were unsuited to the use of tractors and other machines.

Since 1928, therefore, there has been a steady drive, varying in intensity and in methods, but unswerving in its ultimate objective, to force the peasants into *kolkhozi*, or collective farms, where land, working animals and machinery are the property of the farm itself and work is carried on under a board of management nominally elected by the members, although actually a good deal of pressure is often exerted to obtain the selection of candidates regarded as desirable by the local Communist authorities. Along with the collective farms several thousand State farms, where the managers are appointed by the State and laborers are hired on the same basis as in the State factories, were established. A third new agricultural institution of great and growing importance is the machine-tractor station. This is a centre of service and supply from which tractors and other large machines are leased and sent out to collective farms within a given radius.

This Communist agrarian program, on the side of organization, has gone further than the makers of the plan foresaw. Over 60 per cent of peasants—about 15,500,000 families in all—are now enrolled on over 200,000 collective farms, which, with the State farms, cultivate 80 per cent of the planted area. Because of the system-

atic economic discrimination operating against peasants who remain outside the collective farms, the inclusion of the remainder seems only a matter of time. Over 2,000 machine-tractor stations are functioning and about 150,000 tractors are in use in Soviet fields. And yet, side by side with this success in the reorganization of agriculture, a grave crisis is manifest both in peasant productivity and in the supply of food.

When the drive for wholesale collectivization began, it was assumed that the collective farms, equipped with new machinery, would be more productive than the multitude of small holdings out of which they had been formed. It was also more or less taken for granted that the peasant would work as efficiently on a collective farm as on his own holding. Only now, more than three years after the drive was launched, are there significant admissions by the most responsible directors of Soviet agricultural policy that the peasants' zeal in these new enterprises leaves much to be desired.

The comments of these leaders were confirmed by a number of accounts in the Soviet press last Fall of the wholesale growth of weeds and the gross neglect of the fields in many parts of the Ukraine and the North Caucasus. While there has been an increase of the planted area since collective farming was introduced, largely as a result of the more general employment of tractors, there have been reports every year of great losses of grain as a result of indifferent harvesting. Future plans call for an abandonment of efforts to increase the present planted acreage of approximately 330,000,000 acres and for concentration on higher yield.

The old system of cultivation deserved most of the harsh things which Communist and other agricultural spe-

cialists have said about it. Certainly it was backward, primitive and unsuited to mechanization and to large-scale production. Yet the peasant, as long as he was inspired by a sense of ownership, had an automatic stimulus to efficient work which he lacks on the collective farm. No overseer had to tell him that he must work overtime to get in his crops if rain threatened or that he must feed and care for his horse, because the consequences of losing the crop or the horse would come out of the peasant's own pocket. Today this peasant, who has joined a collective farm under strong economic and sometimes administrative compulsion, has no feeling that either the collective farm horse or the collective farm crop belongs to him. His work is apt to be correspondingly shiftless and indifferent. All efforts to replace the automatic stimulus of personal ownership through other incentives, such as piecework payment on the collective farm, have thus far proved inadequate, largely because no system has yet been devised for determining payments that will take accurate account of the quality and quantity of work performed.

The problem of management has also been difficult. Before the revolution there were only two classes of people in Russia with any practical experience in managing large farms—the old country gentry and, on a smaller scale, the kulaks. For political and social reasons both these classes have been outlawed; a former country gentleman or a former kulak would never be tolerated as the manager of a State or collective farm. Incidentally, the process of "liquidation"—banishment and expropriation—which has been applied against the kulaks is not the least of the factors in the decline of agricultural production. While the kulaks constituted 4

or 5 per cent of the peasant population they were generally the most enterprising and most progressive farmers, and they certainly produced more than 4 or 5 per cent of the former food supply.

Today the collective farms in the great majority of cases are under the direction of raw, untrained managers. Of course there are some who are capable, but inexperience alone would inevitably lead to a good deal of blundering. The rank and file of the collective farm, who might catch the rhythm of a well-managed enterprise and work efficiently, soon become discouraged and apathetic when they see that the director of the farm himself has little idea of what he is about. More than once, in my travels in the new areas of collective farming, I have heard bearded peasants say, with a rueful shake of the head: "What this place needs is the eye of a master. Without that eye a farm soon goes to rack and ruin."

Apart from the obstacles and difficulties inherent in the change from an individualist to a collectivist system, Soviet agriculture has labored under other disabilities resulting more or less directly from the ambitious pace of industrial development which the Soviet leaders forced upon the country and which only now is being somewhat moderated. The towering steel, chemical, electrical, machine-building and other plants which are in various stages of construction and operation all over Russia are expensive. Since the Soviet Union has been unable to obtain loans abroad, the capital required for the industrial program has had to be squeezed out of the workers and the peasants.

In order to feed the growing army of city workers and employes and obtain agricultural products for export, the Soviet authorities, until recently,

have practically requisitioned at fixed prices the surplus of the important crops. The discontent this caused among the peasants has been heightened because they have not received anything like an equivalent in city products.

So great has been the concentration on the so-called heavy industries that the output of articles for daily use has been neglected. Thus the peasant, obliged to sell his products to the State at fixed prices, found himself unable to spend for textiles, kerosene, tea, sugar and other goods, more than a third or a fourth of the paper rubles which he received. At a general meeting on a collective farm where this question was under discussion, I heard a representative of the government explain to the peasants that for every ruble's worth of grain they delivered to the State they would receive thirty-five kopecks worth of manufactured goods. (There are a hundred kopecks to the ruble.) This elicited mutterings of dissatisfaction and one peasant, bolder than the others, shouted: "Thirty-five kopecks on the ruble isn't enough. Couldn't they at least give each of us one shirt?"

State exactions of grain from the peasants more than doubled between 1928 and 1931, increasing from 112,100,000 *tsentners* (a *tsentner* is about 220 pounds) to 225,000,000 *tsentners*. The requisitions were even more severe during the Autumn and Winter of 1931, partly because of the fear of war in the Far East. This system of economic exchange, under which much was taken from the peasant and little given in return—such simple things as tea, sugar and kerosene have become increasingly scarce in the villages in recent years—combined with the novelty and strangeness of the collective method in farming to paralyze the peasants' normal will to work.

Modification of the requisition system began in the Spring of 1932, when the Soviet Government, in an effort to stimulate planting, reduced substantially the amounts of grain, meat and other produce which the peasants were required to sell at fixed prices and gave them the right to dispose freely of the remainder in the open market. Then a period of uncertainty set in. On the one hand, the Soviet authorities recognized the necessity for giving the peasants a greater incentive; yet they were determined to prevent a revival of private trading and to direct the flow of the peasants' surplus foodstuffs into cooperative channels. Finally, early in 1933, a decree prescribed an important change of policy by abolishing the "contracting" system altogether, and substituting a fixed levy in kind. After this is paid the peasant, according to the decree, may do what he likes with the remainder of his products. It is hoped that thus the peasant will have a definite inducement to raise more food and that the desired upturn in agricultural output will be achieved.

That the collective farm is not necessarily pro-Soviet, that it may even be anti-Soviet in character, is an interesting idea which Stalin recently developed before the Communist Party Central Committee when he said: "On the collective farms the peasants possess a form of mass organization and because of this the infiltration of anti-Soviet elements into the collective farms and their anti-Soviet activity may yield much greater effect. * * * Collective farms and State farms are nothing but a weapon. This weapon may under certain conditions be directed against revolution. It may be directed against counter-revolution. It all depends on whose hands hold the weapon." Here one sees evidence of the fear that the collective farm may

be not only economically unprofitable but politically unreliable—unless the local Communists take it firmly in hand and guide its policies.

A number of recent measures indicate that the Communists are alive to these dangers. Concessions to the peasants include a fixed tax in place of the previous indefinite and unlimited requisitions, increased emphasis on the output for immediate consumption, and encouragement of direct exchange of manufactures for food between factories and neighboring collective farms. On the other hand, theft of collective farm property is now punishable with death and the penalties for slack work are made more precise and more severe. In the North Caucasus, where last Autumn the resistance to the grain collections was greatest, the populations of whole villages have been deported to remote parts of the country. This process of forcible deportation has been common enough in Russian villages in recent years, but hitherto it has been reserved for the kulaks or for peasants who were outspoken in their opposition to collectivization or to grain requisitions.

Of great potential significance is the establishment of so-called political departments in the machine-tractor stations. These departments are recruited from the most devoted members of the Communist party and the Union of Communist Youth and from thoroughly loyal non-party members. Quality rather than numbers is the guide in selecting the members of these new organizations, which are apparently to function as a kind of auxiliary police and intelligence service in the villages, reporting all cases of sabotage, anti-Soviet activity and inefficiency. The establishment of the political departments is an effort to mobilize all the active Communist

forces in the countryside. The machine-tractor stations, with their high proportion of skilled mechanics, are regarded as politically more trustworthy than the collective farms, with their predominantly peasant membership; and it would seem that they are destined to exercise political as well as economic control over the collective farms which they supply with means of production.

Although the food supply during the last Winter in some parts of the Soviet Union, notably in the North Caucasus, in the Ukraine and Kazakhstan, fell to lower levels than had been experienced since 1922, Soviet officials during the Spring months derived considerable reassurance from favorable figures regarding the Spring planting. On May 15, 1933, the planted acreage amounted to 53,075,000 hectares (about 133,000,000 acres), which was almost 10,000,000 hectares more than had been reported on the same date last year. Even in 1930, when Russia enjoyed the best harvest since the revolution, the sown area on May 15 was only 50,519,000 hectares.

The Spring planting figures are cited as proof that the worst is over in breaking in the new system of agriculture and that the long-needed upturn in agricultural production is imminent. The improvement, despite food conditions which in some regions must have made field work difficult for human beings and draught animals alike, is attributed to the increased stability and experience of the collective farms and to the energy which the newly organized political departments of the machine-tractor stations have infused into field work. Since Soviet plans do not call for any considerable increase in the planted acreage this year, the main advantage of the larger sown area lies in the fact that the sowing

has been done earlier and hence is more likely to prove effective. While one cannot ignore the favorable augury of these Spring planting figures, it is still obviously too early to be certain about the new harvest. The question of reaping, which in the past has often lagged behind planting, remains to be solved, and weather, of course, is an incalculable factor which must be considered.

Collective farming thus far has not achieved satisfactory results in supplying the country with food; yet there seems little likelihood that the system will be abandoned. The whole economic and propaganda power of the Soviet Government is behind it; a younger generation of peasants is growing up without knowledge of individual ownership, and, since the country's industrial production is focused on the output of tractors and agricultural machines, large farming units seem to be assured. Finally, the revival of the millions of private property claims which have been sunk in the collective farms would produce an almost impossible situation.

Nevertheless, one should not underestimate the seriousness of the Soviet food situation or the really urgent need for increased agricultural output and a cessation of the country's annual weed crops. The industrial chain which the Soviet leaders are forging with such intensity cannot be stronger than its agricultural link. Russia is still basically an agricultural country, and the agrarian problem is the axis around which everything else inevitably tends to revolve.

[The change in the situation since Mr. Chamberlin sent his article from Moscow is dealt with by Professor Furniss's article in the "Month's World History" section elsewhere in this magazine.]

The Real Estate Boom—And After

By ELMER R. COBURN

[As an architect who has practiced his profession for many years, the writer of this article has been brought into close contact with the problems he discusses.]

REAL estate constitutes the largest single item in the national wealth of the United States. According to estimates compiled by the National Industrial Conference Board, the total national wealth in 1929 was about \$362,000,000,000, of which real estate represented \$198,000,000,000. Deducting \$23,000,000,000 for churches, schools and other tax-exempt properties, there remained the \$175,000,000,000 that has produced most of our present real estate and mortgage troubles.

There is a tendency to link those troubles with the stock-market crash, although real estate values had been inflated and demanded drastic readjustment long before October, 1929. The real estate crisis is in large part not a result but rather a major cause of the depression. If we go further back than 1929, we find that building progress had been kept within reasonable limits, but that gradually, and then swiftly, new factors came into play. This is seen by comparing the volume of new construction work in 120 key cities during different periods. In the five-year period 1912-1916 the total was slightly over \$4,000,000,000, but after the war, in the period 1919-1924, it jumped to \$10,000,000,000, and then, in 1925-1929, to \$15,000,000,000. These 120 cities, in all parts of the United States, had a total of new construction in the ten years from 1919 to 1929 of \$25,-

000,000,000, as against less than a third as much in the previous decade.

There was no tangible reason for this enormous increase of 200 per cent. The population was not increasing at any greater rate—in each ten-year period by about 15,000,000. In New York City alone new construction from 1920 to 1929 amounted to \$7,250,000,000, an increase of 400 per cent from the \$1,500,000,000 of the previous ten-year period, while the population increased about 27 per cent. The broken skyline of New York City, indeed, symbolizes the present national crisis in real estate. In this city, where the streets are arranged in almost uniform rectangular blocks, is the most amazing hodgepodge of buildings in the world. The striking irregularity in type and size of building says almost everything there is to be said about the lack of planning which distinguishes the great metropolis.

The whole nation, of course, grew up in the same way. There was no foresight, nothing prearranged. First, within the thirteen original States, and then, with the spread of population across the continent, towns and cities were established as reason dictated—here because of a good harbor, there because of proximity to some natural resource. Buildings, for the most part of simple construction, were put up to furnish the first essentials of shelter. They varied from the wooden shacks of the mining towns to the three or four story brick structures of the larger cities. For several years our cities spread out uniformly over the

land, the skyline being broken only by an occasional church steeple. Not until the application of structural steel to buildings became practicable did architects and builders feel safe in going above the comparatively low buildings permitted by cast-iron columns.

Although the most radical changes in real estate have come since steel made the skyscraper possible, the absence of large amounts of capital still held the number of tall buildings in check. In New York City the first conspicuous skyscrapers, such as the Singer Building, the Metropolitan Tower and later the Woolworth Building, were possible only as monuments of wealth accumulated in business. The interval between these and later buildings was due to the difficulty in raising large funds for the purpose.

The great change came with the mortgage bond, by means of which it was possible to divide large mortgages into small units and thereby, for a time at least, raise almost any sum desired. The banker of the old school who had maintained the rule of not granting a first mortgage for more than 50 per cent of the improved property value had instilled in the public mind a confidence in real estate investment that was not warranted under the new conditions. A mortgage to the average person meant a safe percentage of the value of some property and the mortgage-bond houses, by capitalizing this popular notion, were literally flooded with funds. The sale of these bonds in the 1920s has been estimated at \$10,000,000,000. On the other hand, there were comparatively few persons or corporations with sufficient equity to balance the huge amount of money available according to sound principles of mortgage finance—not more than 60 per cent of the total valuation—and the necessity of finding an outlet for these

funds gave the shoestring speculator his golden chance.

Various investigations have shown that the more unscrupulous mortgage houses not only accepted false financial set-ups but often conspired in their preparation, and instead of allowing for a full margin of safety, advanced more than the total cost of many projects. The greater volume of construction in New York City in proportion to the country at large was for the most part due to the fact that money for investment flowed from the forty-eight States into the city's lending institutions and that they tended to confine loans to properties within a reasonable distance. The expending of these huge funds fell largely into the hands of men often quite incapable of using them for the benefit of the investors or of the community. The speculator is generally not a man of vision. His paramount interest is to make a profit for himself with other people's money, and his only previous experience not infrequently was gained in a business entirely unrelated to building.

The basic weakness of shoestring speculation is probably due to the expediency which guides the speculator in everything from the selection of the site to the smallest details of the building. Very often the location has been determined by nothing more than that it was the first available site for which the owner would take a second mortgage instead of cash. Many thousands who held vacant land for years prided themselves on their sagacity when they exchanged their deeds for a second mortgage—usually at a higher price than they expected—only to find the whole value wiped out when the building could not yield an adequate return.

In the erection of the building itself the speculator was no less devoid of

conscience. The architect was selected after much shopping and haggling, for ability meant nothing. Very often the choice fell on an architect who agreed to a very low fee or who could guarantee by devious tricks to obtain more rentable space. Contracts were invariably peddled to the lowest bidder. Workmanship and materials were skimmed everywhere possible and the work carried out at breakneck speed. The success of the speculator depended on the quick completion of a building and the acquisition of enough tenants to produce an attractive rent roll. The speculator's next objective was to make as quick a turnover as possible. Many of the buildings that thus resulted will undoubtedly remain a serious drag on the investment building market for years to come.

Pyramiding during the Nineteen Twenties was carried to fantastic heights. Sometimes a man with virtually no capital managed to start and maintain construction of several buildings in various stages by taking money from one loan account to begin another or to meet expenditures on those already in progress. One well-known operator was within a few years the nominal owner of seventeen large buildings that cost many million dollars, and there were probably others who beat this record. These business methods in New York City became so intricate and resulted in such serious losses to subcontractors on speculative work that the lien law, which makes the diversion of funds from one building loan account to another a penal offense, had to be put into effect. Speculative building spread from the larger to the smaller cities, as the urge to gamble with other people's money became epidemic. New office buildings, apartments and dwellings were promoted with little regard to the tenant market. A great deal of

this spurious investment building went on for a few years without its abuses being realized, enabling many of the earlier speculators to retire with handsome profits.

But a time came when the accumulation of these buildings far exceeded any possible demand. Despite concessions offered to tenants the buildings could not produce even a reasonable return on the highly inflated appraisals. Financial statements had been falsified to such an extent that by sheer weight the whole structure collapsed. Unfortunately, the collapse also affected many honestly financed properties, because the excess of space became so great that very few buildings could be fully occupied. The enterprises financed by reputable mortgage companies have thus had their earning power undermined by deliberately dishonest concerns.

Although shoestring speculation has been mainly responsible for overdevelopment, occasionally the lack of a broad knowledge of rental conditions has added well-financed buildings to the surplus. A New York example of this is the seventy-story RKO Building of the Rockefeller Center group. With 2,000,000 square feet of office space, it comes into the market for tenants at a time when the city already has between 12,000,000 and 14,000,000 square feet of office space vacant. The RKO Building is not a shoestring speculation, but the product of created wealth, a rare case of great wealth aiming at the ideal of city planning. Nevertheless, a broad-scale survey of New York at the time of its inception would have shown the lack of wisdom in such a project.

Another factor in the real estate situation that contributed to the creation of mythical values was the method employed to develop suburban communities. Hardly a city or town in

the United States escaped the speculative land developer. While the more reputable type has in the past often performed a valuable civic service, the question arises whether more careful scrutiny will not have to be brought to bear on the speculative creation of new communities in the future. Scattered all over the nation are parcels of land through which a few streets have been cut and which, for that reason, have been lifted from undeveloped plain acreage to developed property and potentially valued at many times more than they were originally. One such development of about fifty acres was until ten years ago a farm. By the installation of streets, sewers, water supply and other facilities, the value was raised about fivefold. In the course of a few years about half the lots have been sold and a few houses have been built. Now, on reduced incomes the owners of the houses and lots have to scrape together every cent they can to meet the charges on land theoretically worth five times more than it was in 1920.

A large oversupply of buildings or a large number of partly occupied land developments is not only a burden on the community because of inability to meet the so-called fixed charges such as are represented by mortgages and taxes. There is also the cost of maintenance—heating, cleaning, repairs and so forth. But still worse and not fully realized is the effect on many municipalities which are now in financial straits. Such communities in attempting to extend their functions in step with the speculative builder have become burdened with more debt than they can carry. A land development bringing into existence a new community has, for instance, caused a shift in the population, which in turn has

necessitated new schools, fire and police stations and so forth and rendered the municipal services in the older neighborhoods prematurely obsolete.

To alleviate the present mortgage situation itself numerous remedies have been proposed. Many of them can be considered only as temporary expedients and can do little more than to ease the hardships resulting from a large and inevitable liquidation. The Home Relief Act aims, for instance, at reducing indirectly part of the unduly high valuations. A cure cannot be effected by adding to an already excessive debt burden, but by exercising caution before starting new construction. Difficulties are already apparent in the slum-clearance projects which are to be financed by the Federal Government. Commendable as are all plans to create employment, we have to remember that the misuse of investors' money has exceeded the requirements of tenants. Yet this new financial reservoir is to be tapped to aggravate the condition further. Few of the many projects so far proposed provide low-cost housing for the people they are supposed to benefit. Some of them are only a resurrection of ideas of the days of the "new era." If the plans fail, the government is by far the heaviest loser; yet under the stress of the moment some of them will probably receive government aid.

It is significant, however, that a great deal of opposition is developing. The Federal Grand Jury Association for the Southern District of New York recently filed a brief with the Reconstruction Finance Corporation attacking two projects—Knickerbocker Village, which is to replace part of the slum area on the lower east side, and the Hillside Avenue housing project in the Bronx, New York. According to press reports the association ob-

jects to Knickerbocker Village because of the inflated value of the land, and it criticizes the R. F. C. loan of 85 per cent of the total cost of the project when 34 per cent of that cost is for the land. The association is also doubtful if the project can be self-liquidating in spite of the minimum rent of \$12.50 a room per month. It points out that the average rentals in the same district are not more than \$7 a room and asks what is to become of the present tenants of the block that is being replaced.

On the other hand, the association wants to know "where are tenants to be obtained in sufficient numbers to enable the project to meet its operating costs and amortization?" This is a pertinent question, for the Tenement House Commissioner of New York City recently estimated that 200,000 apartments are vacant (others declare that this is too low, one estimate running to 280,000) and in addition between 10,000 and 11,000 families a month have been receiving dispossession notices. Despite good intentions, government financing of new housing threatens to make a bad situation worse. After the last man has laid down his tools and received his relief pay the question of finding tenants will still be unsolved.

Government aid is, of course, intended primarily to bring about recovery, but it also promises to introduce checks on private enterprise in the development of real estate. It is now recognized that there is a real hazard in letting speculation run wild. Income spent on carrying excessive real estate burdens means so much money diverted from active trade channels. Mere legal restrictions cannot correct the errors of the past or

prevent similar evils in the future. The statute books are already filled with building and zoning laws as well as measures to regulate the selling of securities. But changing conditions circumvent these efforts and bring new complications, and it is only by some form of central control over the means of property development that the production of far more space than we need can be prevented.

One proposal to deal with the problem is the coordination of all loan facilities under a central mortgage board. Hitherto lending institutions have operated independently of one another, in ignorance of what projects are being financed. This has often led to the overbuilding of a neighborhood. But while a central mortgage board could better control the granting of loans in the larger cities, it could not regulate new construction. It has therefore been proposed to discover the present supply of available accommodations in each class of building, the planned and actual additions to each class, the location, economic trends affecting neighborhoods, impending shortages, competitive areas, rehabilitation needs, the extent and causes of vacancies and the best uses that can be made of given pieces of property. Then, on the basis of these facts, new buildings would be limited and permits refused unless it could be proved that they were actually needed.

Whatever may be the merits of these particular proposals, it is only by some such form of planning that real estate development in all its phases can be placed upon a proper basis and cease to be a source of disturbance and disastrous loss to our national economic life.

The New Move to End Child Labor

By DOROTHY DUNBAR BROMLEY

[Mrs. Bromley is a journalist who has specialized in sociological subjects as well as problems of a legal and medical nature. She takes up the cudgels for the Child Labor Amendment in the belief that child labor is both a social and an economic evil.]

AFTER nearly four years of depression it has become apparent that thousands upon thousands of children are working long hours in factories and sweatshops while adults remain idle, and that home markets are being flooded with cheap goods from States where child labor laws are lax. So anomalous a situation has revived interest in the Child Labor Amendment which was passed by Congress in 1924, but never accepted by the States. Though the Colorado Legislature unexpectedly disinterred and ratified it in 1931, it was not until the early part of 1933 that the amendment really came to life. Since then Oregon, Washington, North Dakota, Ohio, Michigan, New Jersey and New Hampshire have ratified it in quick succession, and at this writing there is a possibility of its consideration before the end of the legislative year in Massachusetts, Illinois, Oklahoma and Louisiana.

The fact that forty States originally killed the amendment and that nine years have elapsed since its passage by Congress, will not, in the opinion of constitutional authorities, invalidate it if and when it is voted upon favorably by the necessary thirty-six States. Ratification of an amendment is final and conclusive, but an adverse vote may be reconsidered. The question as to the length of time that may elapse between passage by Congress

and ratification by the States, has never been settled. Both the Lame Duck and the Prohibition Repeal Amendments called for ratification within seven years, but there is no time limit specified in the Child Labor Amendment and it is assumed that passage within the next few years would be approved by the courts as falling within a reasonable length of time.

That child labor is now generally admitted to be a social evil is proof that the human race does advance, if by a very zigzag course. Not so many centuries ago Anglo-Saxon law made labor compulsory for children of the lower classes. With the breaking up of the feudal system under Edward III the Statute of Laborers was passed (1360) to force the agricultural workers, including the children, to remain on the land. In the reign of Elizabeth the Poor Law called for the employment of children "to accustom them to labor and to afford a prophylactic against vagabonds and paupers."

In this country the Colonists enacted similar laws, while the Puritan religion, which held all idleness wicked, served to enslave children in their own homes. Bradford writes that "many children * * * having learned to bear ye yoake in their youth, and willing to bear parte of their parents' burden, were oftentimes so oppressed with their hevie labours that though their minds were free and willing, yet their bodies bowed under ye weight of ye same and became decreped in their early youth." Child workers were imported by the boat-load from England,

Neill telling us in his *Virginia Carolorum* that as many as 15,000 were brought over in one year. After the seventeenth century when the spinning craze swept the country children were pressed into service on all sides, and in 1767 the Governor of New York boasted that "every house swarms with children set to work as soon as they could spin or card."

Since children were already engaged in industry, they were as a matter of course employed on a large scale by the factories which sprang up in the nineteenth century. The opportunity for "honest labor" which the new industry afforded children was hailed—even by the philanthropists—as a blessing, and no secret was made of the fact that their labor was vital to our national progress. It is a bitter but irrefutable conclusion that the country climbed to industrial supremacy over the bodies of the factory children. Between 1864 and 1894 we rose from fourth to first place in industrial output among the nations of the world, the volume of our manufacturing products having multiplied twenty times in that period. The rise was most phenomenal in industries that employed children extensively. In the South the number of spindles increased between 1880 and 1900 from 667,000 to 7,000,000, while our coal output rose from 42,000,000 to 269,000,000 tons.

Men who saw themselves becoming millionaires overnight did not stop to count the human cost. By the middle of the century very mild regulatory laws had been passed in Pennsylvania and Rhode Island where 12 years was set as the minimum age for factory work, in Massachusetts where 10 years was made the minimum and in Connecticut where it was as low as 9 years. Regulations in the South came much later, with the pas-

sage of a law by Alabama in 1887 prohibiting the labor of children under 14 and establishing an eight-hour day for those from 14 to 18. But the law was very soon repealed, presumably at the instigation of Northern manufacturers.

This setback caused the author of the Alabama law, the Rev. Edgar Gardner Murphy, to conclude that the problem was a nation-wide one, and it was due to his pioneer work that the National Child Labor Committee was formed in 1904, with a distinguished group of men and women on its roster. Dr. Felix Adler accepted the chairmanship, while Miss Jane Addams, Grover Cleveland, Charles W. Eliot, Homer Folks, Robert W. deForest, Cardinal Gibbons, Mrs. Florence Kelley, Adolph S. Ochs, Gifford Pinchot and Miss Lillian D. Wald were among its first members.

The committee set out to investigate and report facts concerning child labor, to raise the standard of public opinion and to assist in protecting children by suitable legislation. The striking progress they have made in thirty years' time is best illustrated by comparative census figures. In 1900 there were 1,750,178 children from 10 to 15 years of age gainfully employed, or 18 per cent of the population of this age, as compared with 667,118, or only 4.7 per cent, in 1930. In 1900 the number of children engaged in mining was 24,000, as against a mere 1,184 in 1930, and 260,000 in manufacturing and mechanical pursuits as compared with only 68,266 in 1930.

Conditions of child labor in the early years of the century were vividly pictured by the late Senator Albert J. Beveridge when he made a three-day speech before the Senate in 1907. He told of children from 7 to 14 years of age, working on the "breakers,"

bent over a dusty stream of coal; of little girls standing barefooted in pools of water twisting coils of wet hemp; of small boys toiling in the heat of glass factories that were fenced in with barbed wire "so that the little imps could not escape at night," as one foreman said; of still other children rising at 4 A. M. to go to the textile mills, many of them stooped like old people, moving as though in pain.

Senator Beveridge's was a voice crying in the wilderness so far as Congress was concerned. Public indignation was already aroused, but it was not until 1916 that Congress was ready to pass a Federal law. This law prohibited "the shipment in interstate and foreign commerce of goods produced in mines or quarries in which children under 16 years of age were employed, or in mills, canneries, workshops, factories or manufacturing establishments in which children under 14 years of age were employed, or in which children 14 to 16 years of age worked more than eight hours a day or six days a week, or between 7 P. M. and 6 A. M." In signing this bill President Wilson "congratulated the country and felicitated himself."

But the law was declared unconstitutional by the United States Supreme Court in a 5-to-4 decision on June 3, 1918. Mr. Justice Day held that it "not only transcends the authority delegated to Congress over commerce but also exerts a power as to a purely local matter to which the Federal authority does not extend." Mr. Justice Holmes, dissenting, claimed that "the act does not meddle with anything belonging to the States," and he observed that "if there is any matter upon which civilized countries have agreed—far more unanimously than they have with regard to intoxicants and some other matters over which this country is

now emotionally aroused—it is the evil of premature and excessive child labor."

A year later, in 1919, a second attempt was made to regulate child labor, this time through a Federal law imposing a tax upon the profits of all mines and manufacturing establishments employing children in violation of the standards set forth in the 1916 law. This law, too, was thrown out by the Supreme Court, in an opinion written by Chief Justice Taft in 1922. He held that "the so-called tax is a penalty to coerce people of a State to act as Congress wishes them to act in respect of a matter completely the business of the State governments."

The Supreme Court's decisions have been widely discussed. Dean Wiley Rutledge of the Washington University Law School, in attacking their consistency, points out that the interstate commerce clause has been used to prohibit interstate traffic in lottery tickets, impure foods and drugs, obscene matter and intoxicating liquor, and also that "use of the taxing power to destroy had previously been upheld by the court, notably when it sustained the action of Congress in driving State and private issues of currency out of existence."

Whether or not the decisions of the Supreme Court were good law, the harm that they caused in individual cases probably cannot be denied. Several years later, for example, a New York newspaper printed an interview with the North Carolina boy on whose behalf the suit had been brought against the first Federal law of 1916. The reporter found a youth of 19, weighing 105 pounds, who had worked, since he was 12, twelve hours a day. His growth had been stunted by the dust and the lint, and he vowed that his little sister was not to follow in his footsteps.

After the second Supreme Court decision, it was decided that an amendment to the Constitution was the only solution. So the National Child Labor Committee, working with the National Consumers League, the League of Women Voters and the American Federation of Labor, agreed upon a simply phrased amendment giving Congress "the power to limit, regulate and prohibit the labor of persons under 18 years of age." This amendment was finally introduced in Congress in 1924, and owing to the pressure brought to bear by President Coolidge on his party followers it was passed by a vote of 297 to 69 in the House, and 61 to 23 in the Senate. But it was not to have such clear sailing in the State Legislatures. The manufacturers' associations, after failing to prevent its passage by Congress, concentrated their campaign in the key States of Massachusetts, New York and Pennsylvania, on the theory that other States would follow their lead.

In Massachusetts, where the Legislature authorized a referendum on the amendment, the fight was a bitter one. A group organized under the name of "The Citizens' Committee to Protect Our Homes and Children" used the radio, the advertising columns of the newspapers, the public platform and thousands of handbills to persuade the voters that the proposed Child Labor Amendment was a dangerously socialistic measure. They claimed that three of the proponents of the amendment, Mrs. Florence Kelley of the Consumers' League, Owen R. Lovejoy and Miss Jane Addams, had socialistic, if not communistic, leanings, and it was suggested that they had taken a leaf out of the manifesto of the Third International, in which it was declared that "all young workers up to 18 years of age must be

cared for by the State and treated from an educational point of view." The aim of the amendment, they said, was to "nationalize" all American children under 18 and remove them from the control of their parents.

The raising of the communistic bogey was undoubtedly a campaign device, since the "Committee to Protect Our Homes and Children" knew well enough that the amendment had been drafted in consultation with the late Senator Thomas J. Walsh, Senator George Wharton Pepper and Father John A. Ryan of the Catholic University of America, not one of whom could be accused of communistic beliefs. Yet a number of leading citizens of Massachusetts lent the prestige of their names to the panic propaganda that was disseminated. All told, the opponents of the amendment spent \$15,000 to defeat it in Massachusetts, while its friends had less than \$2,000 to spend. It is, therefore, not surprising that the people, misinformed as to the real purpose of the amendment, rejected it by a vote of 696,119 to 27,221.

The amendment suffered no less ignominious defeat in New York State. Both parties had promised it their support in the 1924 campaign, and Governor Smith had personally declared himself in favor of ratification by the Legislature. But when the showdown came he recommended a referendum instead, and even this measure did not pass the Legislature.

Only Arkansas, Arizona, California and Wisconsin, none of which is primarily an industrial State, ratified the amendment in the first two years, Montana following in 1927. It was supported by practically every socially minded organization in the country—the League of Women Voters, the General Federation of Women's Clubs, the American Federation of Labor, the

National Council of Catholic Women, the National Council of Jewish Women, the National Consumers' League, the W. C. T. U., the Y. W. C. A. and the National Education Association. Yet the Legislatures took their cue from chambers of commerce and the National Manufacturers' Association.

Various objections were raised to the amendment that were not quite so far-fetched as the communistic bogey. First of all, it was contended that the age limit of 18 was too high and that it was folly to give Congress the right to prevent young people over 16 years of age from working. Those who drafted the amendment answered that this age limit was set so as to permit Congress, if it saw fit, to regulate the employment of boys and girls under 18 in night work and in dangerous occupations, as several of the States already had done. Still it seems unfortunate that the amendment reads so broadly. The 18-year age limit has given its opponents the opportunity to assert, quite incorrectly, that the amendment would automatically prohibit the labor of children under 18, just as the Eighteenth Amendment prohibited the sale of intoxicating liquor. Actually it only gives Congress the power "to limit, regulate and prohibit" the labor of children up to 18. Common sense tells us that no Congress is going to prohibit able-bodied youngsters of 17 and 18 from working, although it might prevent their engaging in occupations harmful to their health.

In the second place, the cry was raised that the amendment would make it illegal for a farmer to require his son's services on the farm or for a mother to oblige her daughter to do housework. Modifications exempting domestic and agricultural labor had been suggested in Congress, but they were rejected by the supporters of the

amendment because it did not seem wise to write specific provisions into it. An amendment to the Constitution is properly an extension of power to Congress, not a statute setting forth what may or may not be done, and as such it should be broad enough to permit of whatever legislation may be necessary in the next hundred or five hundred years. It is inconceivable, as Senator Thomas J. Walsh pointed out, that "Congress would make a criminal of the farmer who directed his 14-year-old boy to go out and tend the stock." On the other hand, if children are increasingly exploited in the beet fields, in truck gardens and through contract farm labor, Congress may at some time in the future feel called upon to regulate their employment in industrialized agriculture, although it has shown no such intention so far. Also, if the exploitation of young girls in domestic service, which has become so common during the depression, should continue, legislation to protect them would most certainly be in order, although it is doubtful whether it could ever be enforced.

Finally, it was argued that the individual States were very well able to regulate child labor. The ratification of the amendment, it was said, would only add to the dangerous concentration of power in the Federal government which is the present-day tendency. Yet at the time of the passage of the amendment only thirteen States had measured up in every detail to the conservative standards of the first Federal Child Labor Law, while enforcement everywhere depended on appropriations and personnel. A newspaper investigation showed that Mississippi had but one factory inspector, with a yearly appropriation of \$5,500. This inspector said that about 1,200 boys and girls had gone back to work in the cotton mills since the

last Federal law had been thrown out.

The situation has improved somewhat since 1924. Ten States have now a 15 or 16-year age minimum for children who can be employed in industry, and thirty-seven States have a 14-year age minimum. But many of these laws apply only to a limited list of occupations or do not cover employment outside school hours or are shot through with poverty exemptions. Nine States, for instance, still have loopholes in their laws which permit children under 14 years to work in factories. All States regulate hours of work, the large majority having an eight-hour day and a forty-eight-hour week for children under 16, with a few States above and a few below this standard. Night work is restricted almost everywhere, and in a number of States up to 18 years of age, while thirty-seven States restrict the employment of children in dangerous occupations up to 16 years, and thirteen States up to 18 years. Educational and health requirements, furthermore, are much higher than formerly.

Despite State laws, conditions are bad today in the industrial centres of the East and in the South. In these sections the depression has shown to what grim use children can be put in industry, often within the limits of the law. While the total number of children employed throughout the country has dropped along with the general decline in employment, the number of 14 and 15-year-old children working in South Carolina in non-agricultural occupations, mostly in textile mills, increased 29 per cent between 1920 and 1930. In the clothing industry the influx of young people is still more shocking—in Connecticut and Rhode Island the number of workers 16 and 17 years of age increased 123 per cent and 283 per cent

respectively, in Pennsylvania 62 per cent, and in Massachusetts 52 per cent.

Wages paid to these children frequently run as low as \$1 and \$2 a week, or even less, and working conditions are of the worst. A few months ago the young workers in Allentown, Uniontown and Northampton, Pa., went on strike, with Mrs. Gifford Pinchot, wife of the Governor, heading their picket-line. (Pennsylvania is one of the few Northern States that permit children over 14 to work a fifty-four hour week.) The Pennsylvania Legislature made the gesture of ordering an investigation of the sweatshops, but it voted no funds for the purpose. It refused, furthermore, to let the Child Labor Amendment out of committee.

After the two Federal laws were declared unconstitutional and the amendment failed of ratification, most people concluded that child labor was an evil that we or the Federal Government could do nothing about. But conditions in the sweatshops today are so appalling, and the economic consequences of the employment of children are so apparent, that some sort of remedial action would seem to be imperative. A large number of newspapers have inveighed editorially against child labor, some of them specifically supporting the amendment. A surprising number of Southern papers have endorsed it and we find one of them declaring that "if a nation cannot support its population without demanding back-breaking toil from children, then that nation does not deserve to endure."

Groups that originally fought the amendment are beginning to yield ground. In Massachusetts, where Cardinal O'Connell worked against its passage in 1924 (despite the fact that it was supported by Father Ryan of

the Catholic University of America and by the National Council of Catholic Women), opposition from the Catholic Church appears to have been withdrawn. Reputable manufacturers are alarmed over the disastrous competition that comes from sweatshops, and a few, at least, are ready to accept the amendment as the only effective solution. When hearings were held by the Pennsylvania Legislature, Julian R. Bux, president of the Philadelphia Textile Manufacturers Association, appeared in support of the amendment, although he spoke for himself and not his organization.

The fate of the Child Labor Amendment may depend upon the duration of the depression, as public interest is likely to subside with the return of prosperity. It is to be expected, too, that the National Recovery Act, by raising the standards of child as well as of adult labor, will improve conditions for the two years that it is in effect, and so make the need for the amendment less apparent. Thirteen States have at this writing passed on the amendment favorably, while four others are in the doubtful column for 1933. Of the rest, the Legislatures of but six meet in regular session in 1934, not enough to make the required thirty-six, even should they all ratify.

The only hope for prompt action would seem to lie in a message to the States from President Roosevelt, urging that they convene in special session to consider the amendment. It will be remembered that during the campaign he put himself on record as "in favor of keeping children in school to the age of 16."

On the other hand, no less a figure than Clarence S. Martin, the president of the American Bar Association, gives it as his opinion that "the adoption of the amendment is but a step in the destruction of our republican form of government"; while the argument has been put forth that in view of the steady progress made by States in combating the evils of child labor, there is no need for another amendment to the Constitution which would transfer control from the States to a Federal bureaucracy. It is quite true that conditions have greatly improved since the early days of the child-labor movement. Yet the depression has brought back in all of their ugliness the sweatshops that fatten upon the labor of young people. And it has shown us that in times of keen competition it is almost impossible for individual States to maintain decent labor standards while others countenance lax standards. As Dean Roscoe W. Pound of the Harvard Law School has said, "so far as industry and business are concerned, State lines are but lines upon the map." Mr. Martin's argument that we would be destroying our republican form of government by the adoption of the amendment might be answered with the late Senator Beveridge's declaration that "the Constitution was not written to shackle human progress, but to give it free play, and that it was made for the people and not the people for the Constitution." No one can deny his assertion that "the purpose of our Republic is to make better human beings."

Maxim Gorky: Russia's Literary Idol

By ALEXANDER BAKSHY

[Apart from the experience Mr. Bakshy has had in England and America as a literary critic and writer on art and the theatre, he possesses an intimate knowledge of Russian literature.]

WITH the publication of *Bystander*, *The Magnet* and *Other Fires*,* the first three novels of the great uncompleted work in four parts entitled *The Life of Clim Samghin*, Maxim Gorky has come to a time when both the literary critic and the historian find it of interest to consider anew the value and significance of his achievement as a writer. Born on March 14, 1868, he has after a career filled with varied and exciting experiences taken his undisputed place as the leading Russian author of his generation.

It may be that the world's ear is not yet attuned to the proletarian pitch of Soviet literature, or that contemporary Soviet writers lack the necessary power to compel attention outside their own country, but whatever the reason, not a single Soviet author has so far succeeded in capturing the imagination of the world public, or has even established himself as a literary figure of more than local importance. This is no less true of Gorky in spite of his almost universal popularity. To the outside world he is still a writer of pre-revolutionary Russia. On the other hand, since he has allied himself in sentiment with the Soviet régime and become an acknowledged champion of its cause, the Russian people regard him as the one Soviet writer who has come to

symbolize the spirit and power of proletarian art.

Gorky's popularity in Soviet Russia is thus not entirely based on his creative work as an artist. In fact, as a man and a revolutionary he bulks as large in the appreciation of his countrymen as he does as novelist and playwright. Yet these two aspects of his personality bear an important relation to each other. They are different expressions of the same attitude to life, an attitude inspired by a profound faith in the creative spirit of man, an admiration for courage and perseverance in action, a worship of intellect and culture, and an intense hatred of all that degrades the human spirit. Unquestionably he has to be understood, not only as an artist but also as a thinker who has always been keenly and actively interested in the political and cultural life of his country.

The American public has perhaps forgotten the scandal attending Gorky's visit to this country in 1906. Alexander Kaun, in his excellent book *Maxim Gorky and His Russia*, has recently given a full and illuminating account of the episode. He makes it clear that, hypocritical as was the attitude toward Gorky, the trouble was really caused by his political enemies in the Czarist embassy at Washington. Gorky's visit was for the purpose of rousing American opinion against Czarist Russia and securing financial support for the Russian Social Democratic party. In this he was trying to do openly what for a number of years

*New York: Appleton. \$3 each.

he had been doing in a more or less underground way within Russia itself.

As a political free-lance Gorky had maintained a close contact with revolutionary parties, particularly with the Bolshevik section of the Social Democratic party, contributing generously to their funds and enlisting similar aid from some of his wealthy friends. It was thanks to him, for instance, that the *Iskra* (Spark), the central organ of the Social Democratic party which was published abroad and smuggled into Russia for secret circulation, enjoyed comparative ease with money supplied by the millionaire manufacturer, Savva Morozov.

More openly Gorky allied himself with the revolutionary movement during the events connected with that landmark in the political history of Russia, the Bloody Sunday of Jan. 22, 1905. On the eve of the workers' march to the Winter Palace to lay their petition before the Czar, he and a few other Russian writers sought out the government Ministers and pleaded with them to avoid bloodshed. The plea was not heeded, and Gorky himself was witness of the massacre that took place the next day. His public denunciation of this crime and his imprisonment on a charge of conspiring to set up a "provisional government" aroused the entire civilized world. The result was that to placate public opinion abroad as well as at home the government set him free.

Before many months were past Gorky was in the fighting line again. The brief revolutionary interlude of the Winter of 1905-1906 found him at the helm of a Bolshevik daily sharing editorial duties with Lenin, and later, during the abortive insurrection in Moscow, energetically helping to secure means for the arming of the workers. These activities did not re-

main a secret, and when with the crushing of the Moscow uprising the government definitely established its ascendancy, Gorky thought it wise to seek the safety of foreign lands.

The next few years brought him into still closer association with the Bolshevik leaders. His literary work continued to be his main occupation, but he readily lent his services to his political friends. At the suggestion of Krassin he undertook his trip to America in 1906. He attended the congress of the Social Democratic party in London in 1907, witnessed the deepening of the rift between the Bolsheviks and the Mensheviks and cemented his friendship with Lenin. Two years later he established a school at Capri, where he lived throughout this period of exile, to provide political education for selected proletarian members of the party specially brought over from Russia. This last enterprise, conducted in cooperation with Lunacharsky, Bogdanov and a few other Bolshevik leaders, somewhat alienated him from Lenin, who at the time was fighting the "heretical" leanings of this group toward philosophical idealism and a kind of mystic humanism as well as its advocacy of recall of Bolshevik Deputies from the Duma (a policy which was known in Russia as "otzovism").

A man of considerable learning in many fields of knowledge, Gorky has never shown any marked aptitude for theoretical thinking. The verbal aspect of ideas, their emotional content clothed in picturesque phrasing, has always impressed him vastly more than their abstract significance or logic. Small wonder that he neither understood Lenin's vehement opposition to the theories advocated by his school associates, nor felt inclined to abandon his own sentimental worship

of the godless religiosity which as a miracle-working faith in humanity he believed to be at the core of mass enthusiasm and of collective mass effort. His novel, *The Confession*, in which he gave vent to this sentiment, was in fact the literary banner of the "god-builders," as Lunacharsky and his followers styled themselves, and was prominently involved in the controversy.

In the end, Lenin succeeded in his attack against the school and the doctrines of its leaders which threatened to disrupt the Bolshevik faction. The school closed and the dissident movement gradually petered out. But the controversy left its trace on Lenin's friendship with Gorky. Lenin was genuinely attached to Gorky and greatly admired him as a writer, regarding him as the most potent revolutionary and proletarian force in Russian literature. But he was adamant where fundamental principles were concerned, and Gorky, though forced to admit the error of "god-building" as a theory, emotionally retained a lurking sympathy for it, which now and again betrayed him into provocative statements. Thus, with Lenin repeatedly taking him to task for such lapses, the intellectual gulf between them grew wider during the years of the war and the early stages of the revolution. Only after the Bolsheviks had been in power for nearly a year were the two men reconciled.

In 1914, after eight years of exile, Gorky took advantage of the political amnesty and returned to Russia. The World War broke out within a few months of his arrival. Before his eyes passed the collapse of the Socialist movement in Europe, the orgy of jingoism that swept all nations, the vandalism of war, the bankruptcy of modern civilization. Keener political

minds than his among the revolutionary friends found themselves at sea, unable to formulate a policy, where they were not carried away by popular sentiment. Gorky, too, could see only the wreckage of his revolutionary hopes, with no immediate means of continuing the struggle. As editor of a literary monthly he confined himself to one task, the preservation of culture, of human values, of democratic ideals.

Then in the midst of war, came the revolution. To Gorky the Socialist and revolutionist, it was the long hoped for deliverer. But not only had it to deliver the nation from political misrule and social injustice. It had to deliver it also from the anarchy which it brought in its trail and which threatened to engulf the last remnants of culture. In his resurrected daily *Novaia Zhizn* (The New Life) Gorky strove for both ends. But while his denunciation of the war and championship of the workers earned him the hatred of the more moderate groups, his fear of anarchy and his idealistic worship of cultural values brought him into an equally bitter conflict with Lenin and his handful of Bolshevik followers.

Gorky did not believe in the ability of Lenin to ride the storm and treated his attempt to seize power as a reckless adventure bound to plunge the country into utter chaos. Nor was he any less vehement in criticizing the Bolsheviks when, after capturing power, they suppressed political liberties and proceeded to "experiment" on the people under the existing conditions of widespread and growing distress. To the Bolsheviks, of course, Gorky's paper was a thorn in the flesh. They considered suppressing it. A characteristic comment on this by Lenin is cited by Alexander Kaun in his book on Gorky.

"Of course, we must suspend *Novaya Zhizn*," said Lenin. "Under present conditions, when we are to raise the whole country for the defense of the revolution, any intelligentsia-pessimism is extremely harmful. Yet Gorky is one of us. He is too closely knit with the labor class and the labor movement, and he comes from the 'lowly' himself. He will come back to us, beyond doubt. Such things happened to him before, as in 1908, during the *Otzovists*. He has been afflicted by such political zigzags."

The Bolsheviks were spared the necessity of suppressing the paper, for it soon died a natural death. But Lenin's prophecy of Gorky's return to the fold came true to the letter. Gorky's efforts to protect and preserve cultural institutions and to ease the hardships of scientists, writers and artists, the mainstays of culture, involved cooperation with the Soviet authorities. Later, after the attempt on Lenin's life, came the resumption of Gorky's friendship with Lenin and the general realization of the fact that the Bolsheviks were riding the social storm and that with them lay the hope both of revolution and of culture. There was jubilation in the Bolshevik family at the return of the prodigal son, balanced, as was to be expected, by shouts of betrayal and virulent abuse in the camp of the irreconcilable intelligentsia.

For Gorky there now began a new period of active life, a period not only of effort to save the treasures of the past but of enthusiastic participation in the building of a new culture based on creative labor, which has been the one guiding light in his work as an artist. It is his services in this field that, though hampered, but not interrupted by his second prolonged stay in Italy for his health, have added greatly to his popularity in Russia.

Through his paternal solicitude for the advancement of Soviet literature, expressed in personal encouragement and critical advice to hundreds of young writers, through his editorship, since his return to Russia in 1928, of such magazines as *Literary Schooling* and *Our Achievements*, and through his amazingly prolific work as publicist, Gorky has exercised an influence on the cultural life of Soviet Russia that is comparable only to the influence of Leo Tolstoy in pre-revolutionary Russia—with, however, one important difference. In Tolstoy the artist and the preacher were constantly at war with one another; in Gorky the preacher is illumined and fortified by the artist.

What precisely are the elements in Gorky's art that set him apart from "bourgeois" writers and reveal a specific proletarian mentality? If by a proletarian we understand an industrial worker who sells his labor-power to a capitalist, clearly a worker under the Soviet system or in a classless Communist society is a proletarian of a different kind. Likewise, the proletarian mentality, even of the "class-conscious" variety, as it exists under capitalism must of necessity differ from both the Soviet and the future Communist mentality in many essential points.

Nor can one regard as essentially proletarian the habits of mind and standards of value which grow out of the subjection of the workers by other classes. The vices of wealth and leisure for which the ruling classes are held up to so much derision, may conceivably turn into virtues when leisure and wealth become the privilege of all. Conversely, some of the virtues that are now claimed for the proletarian psychology, such as the revolutionary attitude of mind with its reliance on force as the key to all

problems and its rebellious contempt for tradition and set forms of life, are likely to lose most of their glamour or even be condemned as counter-revolutionary romanticism, as soon as Communist society succeeds in forcing human life into its rigid mold.

On the other hand, certain psychological and intellectual traits distinguishing the proletariat as a class in the capitalist world will doubtless survive and become even more dominant under the sway of communism. One of them is the collectivist consciousness of being a part of the whole, with its natural corollary, the spirit of discipline and willingness to subordinate one's personal interests to those of the class or the community. Another characteristic trait of the proletarian mind, in so far as it identifies itself with Communist philosophy, is its faith in the creative power of human intellect and organized society. Science, the machine and disciplined labor, it optimistically believes, will make life worth living, bring man nothing less than paradise upon earth.

It is remarkable that whatever degree of proletarian mentality may be present in Gorky, the industrial worker himself with his joys and sorrows is rarely found as a central figure in Gorky's work. Only twice in his long literary career did Gorky turn to the life of the workers as a subject for detailed description. And in both cases, in the play *Enemies* and the novel *Mother*, works of his early middle period, his characters are not so much individuals as types, drawn with understanding and at times infectious sympathy, yet lacking in vividness and intimate penetration. The truth is that Gorky has never known Russian industrial workers as intimately as he has known his outcasts, his petty craftsmen, and the various sections of the Russian mid-

dle classes all the way up to the resplendent millionaires.

In the eyes of some dogmatic Soviet critics this fact, coupled with Gorky's "non-proletarian" upbringing (his early life was spent among the poorer citizenry of a provincial town), is taken to be sufficient ground for refusing him recognition as a proletarian writer. Such criticism, however, cannot be taken seriously. To be consistent it should apply the term "proletarian" only to the *mores* of industrial workers, and deny it to communism as a doctrine of non-proletarian origin. Neither Marx nor Lenin was a worker, and there are many workers—in America, indeed, quite a number of them—whose outlook upon life is not distinguishable from that of any "bourgeois."

If Gorky's proletarianism is not linked with the *mores* of industrial workers, he undoubtedly shares their class-conscious outlook upon life. It is in the broader generalizations of this outlook, such as the emotional and intellectual attitude toward conditions of life under capitalism, toward the revolutionary mission of the working class, and toward the building of a new life based on organized social effort, that Gorky voices ideas and sentiments which are precisely those inspiring the working class of Soviet Russia.

As a critic of pre-revolutionary Russia, Gorky began with an idealization, highly romantic in its source, of the class of people whose very life was a denial of the consecrated norms of social existence. His tramps, thieves and prostitutes were rebels against society and the world. They were masters of their own life, and in their pride, their daring, their love of freedom and their contempt for the weak they appeared, or were made to appear by their author, as almost a species of supermen. With the stories of this

early period, which breathe the spirit of revolt and at times actually preach revolt, for example, *The Song of the Stormy Petrel*, Gorky sounded a call to arms that echoed throughout Russia then just beginning to awaken from enforced apathy and stagnation.

Widening his field of criticism Gorky turned his interpretative powers to the delineation of other classes. There followed a series of works, to which new ones are constantly being added, painting the life of the workers and especially of the middle classes and showing with rare power of observation and imaginative sympathy the incredible savagery, squalor and degradation that made up the life of the common folk in the smaller cities, the lack of fiber, the helplessness and futility of the intelligentsia, the reckless egotism and inevitable downfall of successful upstarts. *Okurov Town*, *Childhood*, *In the World* and *The Life of Clim Samghin*, are the chief examples of this criticism of old Russia.

And yet, scattered through most of Gorky's work, one continually encounters lovingly drawn portraits of workers (frequently without industrial qualifications) that leave no doubt about the kind of people in whom he placed his faith in the future. There are no fireworks, no romantic embellishments about these people, but only quiet confidence in their own powers and their supremely practical attitude to whatever may be their immediate task. Some of these people are shown as active revolutionists, others as wholly engaged in their everyday work, but to Gorky they are the force that is able to build a new Russia and to them he addresses his passionate plea for a wise use of their powers so that beauty and reason may come to rule human life.

In one of his earliest poems he has

his legendary hero, Vasska Buslaiev, address this speech to the Lord:

Look thou, Lord, what the earth is like—
What a beauty Vasska has made of her.
Thou flung her like a barren stone into
the sky.

I have turned her into a precious emerald.
Look thou, Lord, and take joy,
See how green she burns in the sun.
I'd fain give her to thee as my gift,
But I can't—she is too dear to myself.

In this faith in the creative power of human effort Gorky stands almost alone among the pre-revolutionary writers in Russia. In its flights of idealism the Russian intelligentsia has always regarded the creature comforts of everyday life with a certain amount of haughty contempt. That sort of thing was Philistinism, smugness. In his recollections of Leonid Andreiev Gorky quotes this typical Russian intellectual as once saying to him: "Isn't our Russia amazing? 'Why, we haven't yet solved the question of the existence of God, and you are calling us to dinner.' It was not only Belinsky who said that. The whole of Russia is saying that to Europe, for in the last analysis Europe only calls us to dinner, to a hearty meal—and nothing more."

Gorky, too, calls his countrymen to dinner, but he believes that dining, along with other demands of the flesh, is the proper occasion to feast the soul. He believes in beautiful homes and gardens, as well as fine books and works of art. He believes in the joy of making things. "We must remember," he once retorted to the same Andreiev, "that every created object is the embodiment of human spirit, and often its inner value is superior to that of the man." In Soviet Russia they seem to have made this message a part of their daily creed, and this is why they are doubtless justified in acclaiming Gorky as the finest representative of their proletarian literature.

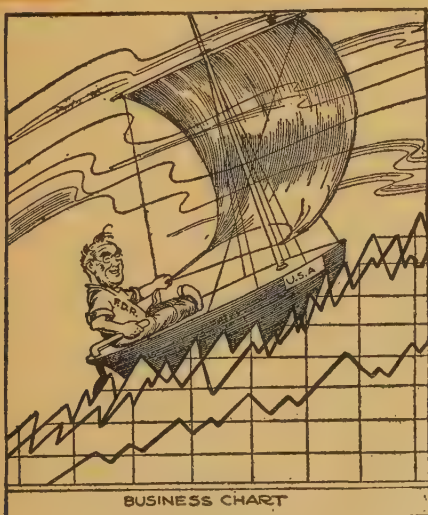
Current History in Cartoons



What good will it do to get rid of the wolf at the door if we destroy our house?
—Chicago Tribune



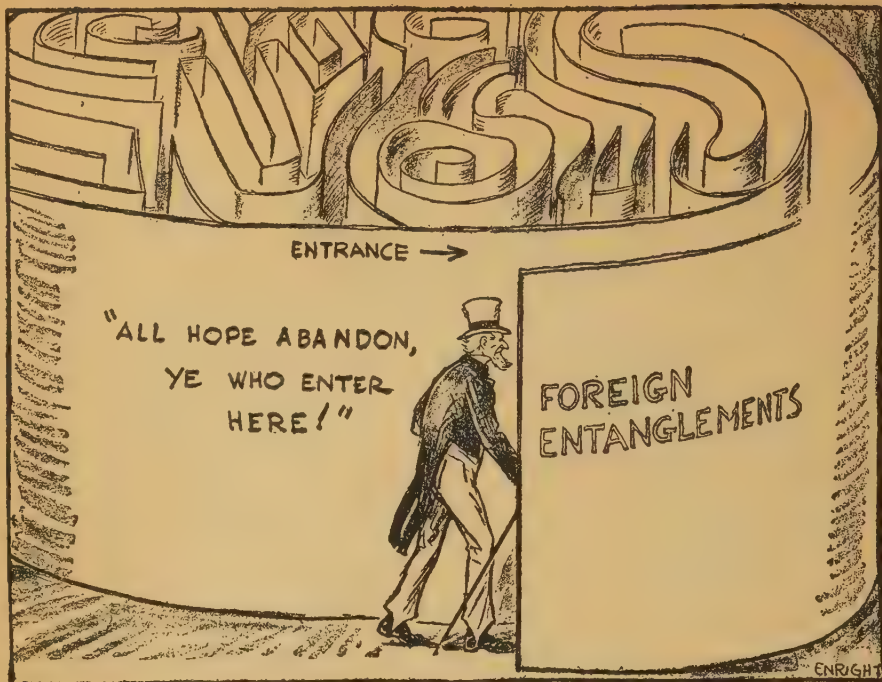
Believe it or not
—St. Louis Post-Dispatch



Vacation fun
—Detroit News



Somebody deserves a medal
—Detroit News



Easy to get in, but how about getting out?

—New York American



Up popped the devil

—Cleveland Press



"Gentlemen will please remove their hats"

—Philadelphia Inquirer



Conference to
decide
whether
every one
shall pull
together
—*Evening
Standard,
London*



The Conference
Confidence Men—
"Be advised
by us—try a
brick!"
—*Daily
Herald,
London*



Kaffir Girl—"Dad, here is my fiancé"
 Father—"Nothing doing—we must keep the race pure"
—De Notenkraker, Amsterdam



Strong man, huh?
—Chicago Daily News



"'Raus!"
—Baltimore Sun

A Month's World History

The World Economic Conference

THE World Monetary and Economic Conference, attended by 168 delegates from sixty-six nations, was opened in London on June 12. Despite the preliminary conversations between the leading statesmen of the world the debates and negotiations of the first three weeks indicated that the foundations of the conference had not been well laid.

Though not listed on the agenda, the irrepressible question of the war debts immediately threatened to create discord. With the United States Congress still in session, neither President Roosevelt nor his delegation in London desired this problem to be mentioned. Nevertheless, Prime Minister MacDonald in his opening speech at the conference, while disclaiming the possibility of settling this matter at the conference itself, declared that it "must be dealt with before every obstacle to general recovery has been removed, and it must be taken up without delay by the nations concerned."

The following day, June 13, the British Government announced a payment to the United States of \$10,000,000 "as an acknowledgment of the debt, pending a final settlement." The full amount of the instalment due was \$75,950,000. In a statement on June 14, President Roosevelt suggested the postponement of formal British representations on the subject of the debt so as to allow the conference to develop its work and, in taking note that

the British Government had made a clear acknowledgment of the debt itself, said that he did not characterize the resultant situation as a default.

Including that of Great Britain, payments amounting to only 8 per cent of the total \$143,604,856 due on June 15 were received by the United States Government. Following the British example Italy paid \$1,000,000 on account of \$13,545,000; Czechoslovakia \$180,000 instead of \$1,500,000; Rumania \$29,100 instead of \$1,000,000; Latvia \$6,000 instead of \$119,609; Lithuania \$10,000 instead of \$132,191. These countries were able to lessen the burden of their "token" payments through President Roosevelt's willingness to accept silver, Great Britain, for instance, saving about \$2,800,000.

The conference actually began before the official opening. During the preceding week delegates from the United States, Canada, Australia and Argentina met in London to discuss the overproduction of wheat and the possibilities of curbing its production in order to raise its price. The immediate problem was the disposition of a 400,000,000 bushel surplus. Although the four countries mentioned produce 90 per cent of the world's wheat, other nations were no less interested in this and other agricultural commodities. Poland, Rumania, Yugoslavia, Czechoslovakia, Hungary, Bulgaria, Latvia, Estonia, Greece and Turkey agreed at Bucharest on June 6 to act as a unit

in presenting their program in London. They adopted a resolution declaring that the agrarian States of Europe could not reduce their production but that America should take the lead.

The agenda paper of the conference itself contained six main divisions: (1) Monetary and credit policy; (2) prices; (3) resumption of the movement of capital; (4) restrictions on international trade; (5) tariff and treaty policy; (6) organization of production and trade. In such a broad field the possibilities of accomplishment as well as of controversy were great. During the first three weeks of the conference the prophecies of the pessimists alone were substantiated. Only a week after the conference opened there were loud voices crying for its adjournment.

The arrival in London of most of the American delegates on June 8 aroused great interest in the American standpoint in regard to economic nationalism. Secretary Hull immediately stated that he would press for an all-around lowering of the tariff barriers as a vital necessity to the resumption of trade. At the same time American, British and French financial experts took part in important preliminary discussions of the currency question, and it was this complex problem that overshadowed the deliberations of the conference throughout the remaining days of June and produced the crisis that President Roosevelt's message of July 3 brought to a head.

When the conference opened, no progress had been made on the question of stabilization of the pound and the dollar. Although the currency conversations were carried on in great secrecy, George L. Harrison, governor of the Federal Reserve Bank of New York, Professor O. M. W. Sprague and James Warburg, the American ex-

perts, were understood not to have opposed stabilization of the dollar in principle. But in practice they did. They opposed any agreement which might interfere with the rise in commodity prices in the United States. Since the British believed the pound to be as stable as it could be without returning to gold, they insisted that the dollar be at least temporarily stabilized. The French, as a gold country, declared that the United States must end the period of fluctuations. In their opinion, instability of the dollar and pound made any attempts to reach tariff agreements superfluous and impossible. On June 12, the opening day of the conference, the dollar declined to a new low level and after wild fluctuation closed at \$4.18 in terms of the pound sterling.

In his opening speech as chairman of the conference, Prime Minister MacDonald did not go beyond generalizations. In his customary evangelical manner, he pleaded for the success of the deliberations. Next morning (June 13) Secretary Hull, who was to have spoken for the United States, postponed his speech. Rumors spread immediately that the American delegation was delaying until Great Britain came to a decision on war debts, while Secretary Hull was waiting for the American Congress to adjourn. Whatever the reason, Mr. Hull addressed the conference on June 14 after the British Chancellor of the Exchequer had made a cold survey of the world depression.

In contrast with Mr. Chamberlain's view that the chief troubles in the world were war debts and low prices, Mr. Hull indicted economic nationalism and high tariff walls. According to the unemotional British Chancellor of the Exchequer, wholesale prices had to be increased and brought into equilibrium with costs. To attain this

end, it would be necessary for central banks to furnish cheap credit. He expressed the willingness of the British Government to consider a program of public works. Regarding currency stabilization, Mr. Chamberlain stated that the immediate objective of the conference should be to secure approximate stability between the currencies of the principal countries in order to check violent fluctuations. The second stage of monetary policy would be the "restoration of a satisfactory international standard, and there is no doubt the gold standard seems to be generally acceptable." But in British opinion there could be no return to gold until wholesale prices had risen, war debts had been removed and excessive tariff barriers lowered. Mr. Chamberlain also suggested that gold be used only for the settlement of international balances, that legal reserve minimums be reduced and that the central banks cooperate permanently. Finally, he proposed that the conference investigate the possibility of creditor countries resuming loans to debtor nations.

Mr. Hull was not so specific and spoke more in the MacDonald manner. In line with his well-known ethical advocacy of international trade, he declared that if any nation wrecked the conference "that country will merit the execration of mankind." Foreign reaction to the Secretary of State's speech was not favorable, for he had not made any practical suggestion for the alleviation of the economic distress.

On June 15 the conference settled down to a more specific discussion of the issues before it. An Economic Commission, headed by Prime Minister Hendrik Colijn of Holland, was appointed. James M. Cox, vice chairman of the American delegation, was elec-

ted president of the Monetary Commission, though France and, to a lesser extent, Great Britain had opposed the selection of an American for this important post. Meanwhile, the governors of the central banks of England, France and the United States, who had been discussing the stabilization of currencies, had provisionally drafted a plan for the establishment of a general equalization account. As a condition for their consent Great Britain and France were said to have asked the United States to promise to suspend for three months the inflation authorized by the act recently passed by Congress.

On the evening of June 15 the conference seemed to have made remarkable progress. Most of the speechmaking had ended, a currency agreement appeared to have been reached, and President Roosevelt's reaction to the British attitude on the war debt problem indicated that at least temporarily there would be no further difficulties in this direction. But that same evening in Washington Secretary Woodin stated that reports of currency stabilization agreements reached in London were unfounded, and that "any agreement on this subject will be reached in Washington, not elsewhere." Administration officials in Washington insisted that the raising of prices was more important and that stabilization of the dollar at a definite level might hamper the government's recovery projects.

The differences between the representatives of foreign countries in London and the leaders of American policy in Washington now seemed to be as wide as the Atlantic itself. The London reports of a temporary dollar stabilization agreement were construed in Wall Street as marking the interruption of the government's cur-

rency inflation policy and brought a sharp rise in the dollar and a drop in commodity and stock prices. The pound sterling fell 8½ cents to \$4.02. The decline on the New York Stock Exchange was the most severe since Oct. 5, 1932.

Two days later, on June 17, President Roosevelt rejected the proposal to peg moneys despite the fact that he had called for stabilization in his message of May 16. In Washington it was made clear that the United States did not propose to enter into any temporary or permanent agreement which would again give foreign countries the economic advantage of deflated currencies at a time when prices were beginning to rise in this country. Although there was general approval of the President's attitude in the United States, foreign countries interpreted the American coolness toward currency stabilization as evidence of the incompatibility of the President's domestic program and his desire for international cooperation. Almost at the same moment, Premier Daladier issued a warning in Paris that France regarded currency stabilization as a prerequisite to tariff reduction and to any progress in the economic field. It was, therefore, not only in regard to war debts but also on the question of currency stabilization that the United States and France openly disagreed.

In response to the appeal by President Colijn of the economic commission to all delegations to suggest topics of discussion, the United States on June 17 moved to put four points on the agenda of the commission: (1) A multilateral reduction of trade barriers by a 10 per cent horizontal cut of import duties and a liberalizing of other import restrictions; (2) extension of the tariff truce beyond the

conference; (3) encouragement of bilateral tariff reductions based on the most-favored-nation principle; (4) clearing and compensation agreements lifting restrictions on the movement of foreign exchange. These suggestions apparently reflected the ideas of Secretary Hull, but twenty-four hours later, Senator Key Pittman issued a statement that the suggestions came, not from the American delegation, but from its expert advisers. In London, Senator Pittman's statement was received as a manifestation of Senatorial unwillingness to assume responsibility for any commitment to lower tariffs.

By this time, only a week after the convening of the conference, the delegates from other countries were thoroughly perplexed as to the American attitude. On the currency question it had seemed that the governors of the three major central banks would reach an agreement and then it had become known that the proposed scheme was unacceptable to President Roosevelt. On the tariff question a definite lack of unity among the American delegates had also been revealed. Although no one doubted the personal sincerity of Secretary Hull's views, there was a suspicion that he was not speaking with authority.

With the opening of the second week of the conference on June 19, Senator Key Pittman made an excursion into the domain of silver by offering a resolution proposing that 80 per cent of the metal backing of currencies be in gold and 20 per cent in gold or silver. He also suggested that a 25 per cent metal coverage would be more satisfactory than the present reserve requirements. This question, however, did not attract the attention of the whole conference

which preferred to continue with the question of stabilization and price-level problems. Once again foreign voices were heard proclaiming the desirability of an adjournment until the United States had decided on what course to pursue.

The gold bloc countries, under the leadership of France, now prepared to bring the currency issue to a head. Spokesmen of the bloc, including Georges Bonnet, indicated that they might advocate the adjournment of the conference pending solution of the stabilization quarrel. Washington answered this threat by urging that delay in stabilization should not necessarily halt discussion of other problems and made it clear that any recess of the parley was to be deplored.

In the midst of the criticism aimed at the United States there were a few acute observers of international relations in London who believed that Great Britain and France were over-emphasizing the importance of the stabilization question. They saw the main difficulty of the conference in the tariff problem and thought that the President would hold the sword of inflation over the heads of those countries which might oppose an agreement on tariff questions.

For the first time since the opening of the conference, the American delegation made on June 22 what appeared to be two unequivocal statements on the questions of monetary stabilization and trade barriers. In regard to the former, the delegation said that undue emphasis had been placed on measures for temporary *de facto* stabilization and that the United States found the proposed measures in this matter "untimely." The resolution on trade restrictions, introduced by Secretary Hull by "authority of the delegation and on instructions from

the United States Government," called for a rapid and complete removal of embargoes and quotas and the negotiation of bilateral or multilateral agreements to reduce tariffs. The opinion was becoming stronger in Administration circles that the dollar would find its proper level after the President's program had been in operation some months, and that until then the United States would not be justified in entering into a stabilization agreement.

The first two weeks of the conference, nevertheless, established the fact that the monetary policy of all nations depended upon the value of the American dollar. Without at least some form of stabilization of the dollar no country was willing to go forward with the work of the conference. On June 27 attacks on the Dutch guilder intensified the anxieties of Holland, France, Switzerland, Italy and Belgium, who conferred on measures to defend the gold standard against American dollar depreciation. Great Britain, however, refused to aid them by attempting to peg the pound. While the American dollar continued to spiral downward the French press continued to clamor for the adjournment of the "farce" in London.

The five chief gold-standard countries on June 28 initiated a move to induce Great Britain to participate with them in a joint public declaration that the pound would remain pegged to gold at least during the period of the conference. On June 29 the fluctuations of the dollar led to another grave crisis for the conference. In London the pound was up to \$4.41½ in the morning, dropped to \$4.24 and then rose again to \$4.29½. French fears as to the future of the dollar led to estimates that the franc would be able to adhere to the gold standard

for only another six months. The situation had become so grave that the gold bloc and Great Britain sent an appeal through Professor Moley to President Roosevelt to join in a proposed declaration that would halt speculation in dollars. The declaration was to the effect that the seven countries favored the gold standard and a return to it as soon as possible, and that each country should assist the others in preventing purely speculative movements.

President Roosevelt, dramatically projecting himself, for the second time within two months, into the international scene, emphatically rejected the proposal of the gold bloc on July 3. In words which were unparalleled in modern diplomacy the American President told the world that he "would regard it as a catastrophe amounting to a world tragedy if the great conference of the nations * * * should * * * allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only." He added that the United States sought a dollar which a generation hence would have the same purchasing power and debt-paying power as the dollar value "we hope to attain in the near future." In London the first reaction to the President's provocative message was perplexity and anger. The gold-bloc countries, however, immediately declared that they would maintain the gold standard.

The conference had thus within three weeks reached a crisis which appeared to be insurmountable. The United States would not stabilize its currency until a sufficient rise in prices had been achieved. The gold bloc countries would not follow the United States in its policy of devaluation and inflation. And Great Britain

remained undecided between the two. The currency problem had relegated all other issues to an unimportant place. Tariff discussions came to a standstill. Even in regard to the limitation of wheat production, Australia, Canada, the United States and Argentina had found it impossible to agree upon reduction of output. Secretary of Agriculture Wallace on June 21 stated that it was "conceivable that the United States might resort to dumping" its exportable wheat if the London Conference failed to bring about an agreement.

THE ARMS CONFERENCE

After a month in which it had played the leading rôle, the disarmament conference in June gradually found itself faced with the necessity of suspending its deliberations. On June 6 the French Government "confirmed the instructions previously given to the French representatives at the disarmament conference." This indicated that France intended to maintain her old position. At the same time in Geneva, Norman H. Davis, leader of the American delegation to the disarmament conference, took the strongest stand for the effective control of public and private manufacture of arms that the United States had demanded in fourteen years. Two days later in Paris, representatives of the United States, France and Great Britain met and decided to continue their conversations during the pause in the disarmament conference in an effort to eliminate the problems which had obstructed decisions in Geneva.

The general commission in Geneva on June 29 decided to adjourn the conference until Oct. 16. In the meantime, President Henderson stated that he would attempt to end the deadlocks by private talks.

The Recovery Administration

By E. FRANCIS BROWN

WHEN the special session of the American Congress adjourned on June 16, the Roosevelt administration had won a notable political victory. Whether it could follow up this victory with a rout of the forces of economic depression then became the important question. In American history a special session of Congress has often been a factor in ruining an administration. Too often a President, unable to control his Congress, has watched that body wreck his program. But the experience of the Roosevelt government has been more than happy. Its program has been forced through Congress, despite the many measures that could excite every kind of prejudice. Moreover, the prestige of the administration and its popular support were so great that whatever Congressional opposition might have existed was overcome even without resort to patronage as bribery for votes. The test of the Roosevelt administration, however, will be found in the proved efficacy of the measures enacted by the Congress, and not in their merely having been enacted.

But the final adjournment of Congress did not come without a struggle. On June 2 the Senate passed the Independent Offices Bill with appropriations which reduced by more than \$170,000,000 the economies in veterans' benefits proposed by the administration. Immediately the President and his advisers protested, demanding that, if the reductions were not restored, taxes adequate to meet the added expenses be provided. Moreover,

Mr. Roosevelt expressed his willingness to stay in Washington all Summer if necessary in order to insure a balanced budget. White House conferences between Congressional leaders and the administration brought about an eventual compromise which accepted some reduction in the savings desired by the President but which would still greatly curtail the benefits previously bestowed on war veterans. This victory followed the Senate's insistence upon an amendment which would have cost the economy program from \$100,000,000 to \$160,000,000. A Presidential veto and appeal to the country appeared inevitable when the House surprised many observers by rejecting the Senate's amendment. At last, on June 15, the Senate receded from its recalcitrant stand and the Independent Offices Bill was passed.

The battle had been largely political in nature. Members of Congress, under the pressure of the veterans' lobbyists and the fear of their ultimate fate in Congressional elections, had hesitated to curtail the privileges so long enjoyed by the veterans. Republican members of the House and Senate saw an opportunity to reunite their broken ranks on an issue that might eventually bring them votes. Perhaps more than economy was involved in this struggle. The President had not hesitated to make clear that he was ready to do justice to any veteran who had incurred injury or disease while in the service of the nation; only those receiving compensation for non-service connected disabilities were

to be affected by the administration's program. From the point of view of justice such a stand, even if not definitely formulated, seemed to have much to recommend it, and it was certainly popular with the majority of the people.

Three days before Congress adjourned the National Industrial Recovery Bill was passed by the Senate and sent to the President for his signature. In its final shape it differed little from the original form in which it was introduced by the administration on May 17. (See July CURRENT HISTORY, page 461.) To meet the cost of the financing of the \$3,300,000,000 public works program incorporated in the bill, the Senate levied taxes on the net worth, earnings and dividends of corporations. The existing gasoline tax was increased by one half cent and the rates on consolidated income tax returns were raised by 1 per cent. These supplanted the higher normal income tax rates which had previously been adopted by the House. An amendment to the bill provides for publicity of income tax returns under regulations to be drawn up by the President.

This bill, which would revolutionize the organization of American industry, was signed by President Roosevelt on June 16. "History," he said, "probably will record the National Industrial Recovery Act as the most important and far-reaching legislation ever enacted by the American Congress. It represents a supreme effort to stabilize for all time the many factors which make for the prosperity of the nation and the preservation of the American standard of living."

That same day the President signed other bills which had been passed during the last days of the special session. Among them was the con-

troversial Glass-Steagall banking law which had long been pending and which at one time had seemed destined for a veto. (See July CURRENT HISTORY, page 463.) The proposal for insurance of bank deposits had been opposed by the administration and by conservative banking groups; yet it was finally accepted as unavoidable. Opponents of that provision, however, were able to postpone the establishment of an insurance fund until Jan. 1, 1934, defeating those who desired immediate action. Despite his coolness toward the bill during its progress through Congress, the President was reported to have described the new statute as "the second most important banking legislation enacted in the history of the country." Whatever its faults may be, the new law does direct American banking toward the unified system which has long been advocated in many circles. The Home Owners' Loan Bill, the Independent Offices Bill, the Deficiency Bill, a bill for continuing certain special taxes, and a bill to centralize farm credit extensions were likewise made law in these closing hours of the first period of the Roosevelt era.

Before leaving the capital for a cruise along the New England coast, the President issued executive orders to carry into effect the provisions of the National Industrial Recovery Act. The actual administrator of the act is General Hugh S. Johnson, but he is under the supervision of the Industrial Recovery Board, composed of the Secretary of Commerce, the Attorney General, the Secretary of the Interior, the Director of the Budget and the chairman of the Federal Trade Commission. The administrator is also a member of this board. In addition, the administration of the act will be aided by an Industrial Advisory Board and a Labor Advisory Board composed of

leaders in their respective fields of activity. Colonel Donald H. Sawyer was appointed Federal Emergency Administrator of Public Works. His work is subject to the approval of a Board of Public Works consisting of the Secretary of the Interior, the Secretary of War, the Attorney General, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Director of the Budget, Colonel George R. Spaulding and Assistant Secretary of the Treasury Robert.

How much or how little will be accomplished under the provisions of the National Industrial Recovery Act may be known by Fall if General Johnson is successful in putting the act into immediate operation. That some disappointment arose from the first announcements of the men to be concerned with the carrying out of the law cannot be denied. To many it seemed as if great industrialists would dominate policy and that the aspirations voiced during the debate on the bill would never be realized. Perhaps the answer to this criticism was to be found in the personnel of the supervisory boards. Certainly Washington gossip maintained that Secretary Roper and Secretary Ickes would restrain the industrialists from using the law for their own ends. But here, as in so much of the Roosevelt program, the proof of the pudding must be in the eating.

In any event, the Industrial Recovery Administration urged immediate agreement in the various trades upon codes of fair competition and threatened to use compulsion if they did not act on their own accord. With that in mind, General Johnson on June 20 issued a bulletin on "basic codes" outlining to industry the nature of the agreements that must be submitted.

The previous day the cotton industry had presented the code upon which its members had agreed; many other, though less basic, trades were trying to work out codes for operation. In each instance public hearings will precede final approval by the Federal agencies. Meanwhile, in many minds there was doubt about the new law. Business men feared that labor might become too strong; old-fashioned liberals saw the doom of the small capitalist; conservatives wondered if the end of the traditional American business liberties were not at hand.

The public works program likewise moved ahead as soon as the Recovery Act became law. At least \$100,000,000 will be expended in Treasury-Post-office building and \$247,000,000 is to be used to construct naval vessels and airplanes. For highways in the States and Territories \$400,000,000 has been allotted. Another \$100,000,000 will go for non-Federal self-liquidating projects. Further plans for carrying out this phase of stimulating industry and reducing unemployment were under consideration but had not yet been made public.

The administration's bill for coordinating the railroads finally passed Congress on June 9 after it had become known that Joseph B. Eastman of the Interstate Commerce Commission would be appointed Federal Coordinator of Transportation. The law protected railway workers against the loss of employment that might result from the economies expected through coordination. Mr. Eastman, who for years has been an advocate of enlightened railway management, had aided in the drafting of the railway law. One of the first problems confronting the new coordinator was the demand of the railroad executives for a 12½ per cent reduction in the pre-

vailing rate of pay to union employees. At a meeting on June 20 of the representatives of management and labor, Mr. Eastman declared that the Roosevelt administration did not believe the time was propitious for further pay reductions. With that in view, an agreement was negotiated postponing the issue for eight months. Meanwhile, the preliminary work of coordination proceeded.

The administration's farm policy likewise has begun to be effective. On June 14 it became known that processing taxes would be levied on wheat and cotton in order to reduce the acreage of these crops and to raise prices. Unfavorable weather conditions and a plague of grasshoppers already were reducing the wheat crop prospects, while the threat of inflation gave a further impetus to higher quotations in the wheat pit until dollar wheat again became a reality. Secretary Wallace had announced on June 16 that a processing tax of about 30 cents would be levied against milling soon after July 1. Under Secretary Wallace's plan for a processing tax no farmer would be eligible to participate in the proceeds unless he had agreed to reduce his acreage in 1934 by 20 per cent.

The Secretary of Agriculture a few days later approved a processing tax on cotton spinning, the exact amount to be determined later. Conceivably the price of cotton might advance to a point where the processing tax would not be applied, since the aim is to secure a farm price for cotton of 12.4 cents a pound, the average from August, 1909, to July, 1914. The proceeds of the tax would be disbursed in the form of land rentals in an attempt to reduce cotton planting by at least 10,000,000 acres. Growers would be presented with a combined land-leas-

ing and option plan, but those not desiring to take options on government-owned cotton would receive higher rental payments. As the Secretary of Agriculture is anxious that the plan go into immediate operation, about 25 per cent of the 1933 cotton crop would be destroyed.

The Farm Credit Administration, of which Henry Morgenthau Jr. is governor, has been at work extending loans to farmers and seeking to secure relief for farm mortgagors. Closely allied to the latter task is the reopening of those closed banks which at present are burdened with frozen farm mortgages. As early as June 11 the Farm Credit Administration had advanced more than \$136,000,000 to farmers; a few days later its mortgage relief program was under way in Wisconsin.

One of the administration's important measures for unemployment relief is the Civilian Conservation Corps, which by June 10 had enrolled 250,000 unemployed men; 275,000 had been mobilized in the army on July 1. One of the great tasks, after actual establishment of the camps for the corps, has been the moving of these men from one part of the country to another. Never, except possibly in war time, has there been such a large-scale movement of men, mostly from the Eastern seaboard to the Far West. Robert Fechner, director of emergency conservation work, estimated on June 17 that directly and indirectly more than 1,000,000 persons had been aided by the work of the Conservation Corps. Moreover, the relief burden of many cities had been greatly lightened.

But the work of the Conservation Corps must not be regarded wholly as a measure of unemployment relief. The establishment of this corps has made possible the setting up of Fed-

eral reforestation activities such as conservationists have advocated for years. The government already has bought between 6,000,000 and 8,000,000 acres of timber land in the East and South where reforestation projects will be carried out. Thus, under the guise of unemployment relief, a national system of conservation is being inaugurated—a system which includes reforestation, flood control, protection against soil erosion and so on. Like many another measure of the Roosevelt administration, it will, despite its supposedly temporary nature, probably be permanent.

The reorganization of government services in the interest of economy occupied the attention of departmental heads during June. The President submitted to Congress on June 10 executive orders reorganizing certain government functions. These orders, covering consolidations, regroupings, abolition of some bureaus and curtailment of the work of others, embodied the results of the studies of government machinery made up to that time. Because the executive orders arrived so late in the session there was a disposition in the Senate to withhold approval. In the end neither house took any action and, since such orders become effective within sixty days unless Congress disapproves, the plans for reorganization contained therein will go into effect. If it had not been for the Congressional revolt in regard to veterans' benefits it seems probable that the administration would have reached its goal of a \$1,000,000,000 reduction in Federal expenses. Even so, the savings will be tremendous, involving as they will the curtailment of many services which the government had been extending. Indicative of the changes is the restricted activity of the foreign service of the

Department of Commerce, a function brought to a high state of development when Mr. Hoover was Secretary of Commerce. Economies, increased taxes and new sources of revenue have already reduced the deficit for 1932-1933 by about \$1,000,000,000, and the Director of the Budget is still confident that the budget for ordinary expenses will be in balance for the next fiscal year.

As the Roosevelt program was rounded out the business recovery that had been in progress since April continued. There were certain disquieting elements in the recovery, not least the fear of inflation that was causing investment in commodities of all sorts; here would be an explanation for improved prices. Yet bond quotations did not fall, as might be expected during a time of impending inflation. Economists are not agreed as to whether artificial stimulation of business through inflationary measures can be effective. In any case, indices of all sorts reflected the changed conditions. *The New York Times* index of general business activity rose from 79 for the week ended May 27 to 93.8 for the week ended June 24. The index of wholesale commodity prices prepared by *The Annalist* showed similar improvement, rising from 92.1 for the week ended May 29 to 97.8 for the week ended June 27. Employment has turned upward, even if not in any wholesale fashion. Secretary Perkins reported that employment increased 4.8 per cent in May and payrolls 11.5 per cent. Higher wage scales in many manufacturing plants aided in improving the position of labor, though rising prices promised soon to counteract the effect. Imports during May increased by \$18,588,000—the largest for any single month since March, 1931. May exports amounted to \$8,781,000 more than in

April. Stocks advanced during the month and held major gains despite minor recessions. The volume of trading in June on the New York Stock Exchange was the largest on record for that month.

The banking situation appears to be improved since on June 19 Louis M. Howe, secretary to the President, was able to announce that 90 per cent of banking deposits had been freed from all restrictions. On that date 1,005 banks with deposits of about \$1,134,000,000 were still closed. Bank clearings, indicative of the better business outlook, were 6.3 per cent higher for the week ended June 14 than in the same week a year ago. Currency in circulation for the same week fell \$44,000,000.

Better business and higher prices have further stimulated the spirit of hope that has prevailed ever since the Roosevelt administration took office. Much of this hope may not be justified; yet it does exist. Few men and women outside official circles understand what the government is trying to do; few dare guess where it is leading the nation; but across the forty-eight States there is, in the midst of this lack of understanding, confidence in the ability of Mr. Roosevelt and his advisers to find the way out. And it is confidence of the kind that in most instances has become enthusiastic support for the Democratic administration, support given without reserve by old-guard Democrats and formerly loyal Republicans. However temporary, it can be safely asserted that never in modern times has an American President enjoyed the prestige and popularity of Franklin D. Roosevelt as his administration completes its first four months.

Despite minor revolts, the President retained command of his party major-

ity during the special session. Much of this was the result of his personal prestige; part sprang undoubtedly from the slowness with which the patronage was dispensed. However irritating it might be for members of Congress not to be able to bestow offices in their respective constituencies, they felt it to be necessary to support the Executive lest this patronage be withheld permanently. Although 1,256 nominations had on June 16 been sent to the Senate by the President, not a single postmaster was included among them. Small wonder that, with these traditional spoils of office omitted from the new deal, Democratic House members organized a special committee to obtain jobs for deserving Democrats. Meanwhile, the pressure for positions with the new governmental agencies was so great as to hamper the work of some of the departments.

The diplomatic appointments have been made gradually. On June 10, William E. Dodd, Professor of American History in the University of Chicago, was nominated to be Ambassador to Germany. John Francis Cudahy of Milwaukee has been made Ambassador to Poland and Lincoln MacVeagh of Connecticut is to be Minister to Greece. Robert P. Skinner, at present Minister to Finland, has been appointed Ambassador to Turkey. Among the other diplomatic posts filled are: Robert G. Caldwell of Texas, Minister to Portugal; Francis White of Maryland, Minister to Czechoslovakia, and John Flournoy Montgomery of Washington, Minister to Hungary.

While many amazing things have happened in America since March 4, one of the most surprising—if viewed from the point of view of even a year ago—has been the sentiment for repeal of the Eighteenth Amendment as

expressed in the successive State elections for conventions to act upon repeal. Not so long ago sage publicists predicted that repeal would never be possible. At the end of June it began to look as if by the end of 1933 the Eighteenth Amendment would be only a memory. During June the total number of States favoring repeal rose to sixteen as Nevada, Massachusetts, New Hampshire, Connecticut, Iowa, West Virginia and California joined Wyoming, Illinois, Indiana, New York, New Jersey, Michigan, Rhode Island, Delaware and Wisconsin in what promises to be an overwhelming victory for the wets. Even in rural areas, the voting on repeal has shown, the strength of the drys has been broken and, in the face of protests from church conferences, church members are voting against the once-sanctified prohibition amendment.

The investigation by the Senate Banking and Finance Committee into banking, financing and securities sales practices continued during June, but none of the disclosures were such as to excite a public apathetic before the technical discussion of high finance. The methods by which the Van Sweringen brothers built up their railroad system were revealed as well as their methods of evading income tax payments. But however interesting as a picture of financial practice, the testimony caused no sensation. Investigation of the affairs of Kuhn, Loeb & Co. began on June 26, the Senate committee having been in recess since

June 9 when the Morgan phase of the banking inquiry temporarily ended.

The Federal prosecution of Charles E. Mitchell, former president of the National City Bank, on charges of defrauding the government of income taxes due in 1929 and 1930 came to an end on June 22 when the jury acquitted him. During the many weeks of the trial the financial affairs of the former bank president were ruthlessly exposed in an attempt to prove that his sales of securities to his wife and to a friend had been, as the prosecutor charged, "a terrific hoax." While the prosecution failed to win its case, the public did not recover from its disillusionment as to the conduct of banking leaders. Possibly the Mitchell verdict will affect the apparent determination of the government to investigate the income tax returns of important financial figures.

Governor General Murphy arrived on June 15 in the Philippine Islands to take over his new duties. In an interview soon after he was welcomed in the city of Manila he promised to give the islands a business government while waging "relentless and unceasing war on human exploitation, on ignorance, on disease, on dishonesty and on injustice in any form." It was significant, also, that Mr. Murphy declared that he would not try to influence the decision of the Filipinos in regard to independence. Meanwhile, the campaign preceding the plebiscite on the Hawes-Cutting independence act has begun.

Cuban Peace Prospects

By CHARLES W. HACKETT

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PROSPECTS for a definite solution of Cuba's stormy political problems brightened perceptibly during June. On June 7 President Machado issued a statement in which he set forth detailed plans for constitutional reform. In brief, his proposals include the restoration by a constitutional amendment of the office of Vice President and the selection of an acceptable neutral for that position, the adoption of a new and more liberal electoral code and guarantees for the reorganization of existing political groups and the formation of new ones.

Eclipsing in interest and importance President Machado's gesture of conciliation to his enemies was the acceptance on June 15 by both the government and the ABC student revolutionary organization—the most active of the opposition groups—of the United States Ambassador, Sumner Welles, as mediator of their differences. This action was interpreted by J. D. Phillips in a dispatch to *The New York Times* as “the first concrete indication to the people of Cuba that the United States will bring order out of the chaotic condition which has torn the island asunder during the past four years and has brought excessive bloodshed and economic ruin with it.” The following day, however, State Department officials in Washington announced that whatever efforts Ambassador Welles might make in Cuba to reconcile the embattled political factions he would act in his personal capacity and not

as an official United States mediator.

Professors of Havana University, which has long been among President Machado's most vigorous opponents, elected a committee on June 17 to represent them before Ambassador Welles. Twenty-two delegates from the university's eleven schools selected Dr. Ricardo Gómez Murillo, rector of the university, and the deans of the three faculties to draft a memorandum setting forth the events affecting the university since it was closed in 1930. On June 20 the professors who were favorable to Ambassador Welles's mediation in Cuban political affairs were reported to have required their recalcitrant delegates in the United States either to cooperate with them or disband. Dr. Carlos de la Torre, representative of the professors in the Cuban revolutionary junta in New York; Dr. Ricardo Dolz, former dean of Havana University, and Dr. Grau San Martín, delegate in Havana, were given until 8 o'clock the following day to answer this ultimatum. The New York junta, which was organized over a year ago to cultivate American sentiment in favor of a governmental change in Havana, was virtually dissolved when Dr. Carlos de la Torre announced its adjournment *sine die* with full liberty of action restored to its members. A settlement was brought nearer on June 21 when the Havana professors handed Ambassador Welles a memorandum definitely accepting his mediation. This was the third important

opposition faction to accept Mr. Welles as mediator, the other two being the ABC student revolutionary organization already mentioned and the OCCR, a radical organization, which fell into line on June 17.

Despite these prospects of peace, political violence continued in Cuba during June. Following a heated election argument Representative Oscar Montalvo of Matanzas Province was fatally shot in the Cuban Senate Chamber on June 1 by Mario Cuellar del Río, a brother of a Cuban Senator and private secretary of another Representative. Santa Clara Province, where abortive revolutionary disturbances occurred in the previous month, was the scene of no fewer than seven clashes between Cuban Rural Guards and insurrectionists from June 2 to June 17. In these clashes, according to reports, twenty-four rebels were killed and six captured, while several guardsmen were wounded. A bomb explosion in Matanzas Province on June 4 destroyed a railway bridge and caused a suspension of rail service for forty-eight hours; another bomb which exploded in the business section of Havana on June 17 caused considerable damage to property.

The military censorship of Cuba's newspapers was re-established on June 8, following what was considered by the government to be an overenthusiastic interpretation by the press of President Machado's declaration of June 7 promising political reforms. On the afternoon of June 9 all commercial radio broadcasting stations in Cuba were silenced while government authorities attempted to locate a pirate station, whose announcer claimed that it belonged to the ABC student revolutionary group and which broadcasts propaganda against the Machado régime for an hour every day.

Ten political prisoners were released from Principe prison at Havana on June 16. On that date it was reported that the Machado government was holding 90 political prisoners in Principe prison, 140 in the Isle of Pines prison and 100 elsewhere. Fifteen additional political prisoners were released on June 20.

MEXICO'S SOCIALIST PLAN

An open espousal of socialism as Mexico's goal, but with the rejection of "radical utopian programs," has been made by General Plutarco Elias Calles, former President of Mexico and now that country's unofficial political dictator. In an interview which was printed in the Mexico City newspapers and which was quoted by Jack Starr-Hunt in the *New York Herald Tribune* of June 17, General Calles outlined to Ezequiel Padilla, a leader of the National Revolutionary party, a six-year plan, coincident with the next Presidential term. The plan aims at rehabilitating the country by completely ending the parceling of land and by "overcoming the broken equation of unemployed men and unemployed national resources."

General Calles was quoted as having made the following statement: "Our national scene is sad for the laboring classes; unemployment, unjust salaries and the most miserable exploitation all call for a policy of economic salvation. Why not face the problem? Men without work; national resources idle. This broken equation should be integrated by the State taking over enterprises directly and socializing and encouraging production without profit for the service of true collective justice. * * * Large scale industry for some time has been trembling from fear. Why should not the State valiantly undertake, without transgressing private interests, the

rôle of promoter with socialistic ends?"

Answering these questions, General Calles continued: "We cannot initiate direct enterprises because of the lack of human material. Such enterprises need more than great technical preparation—they need great moral and administrative preparation, founded on personal unselfishness, probity and the desire to serve the collective interests. We still lack this preparation. We lack the indispensable organization and would fail. For the present we must depend on private initiative, guided and sustained and channeled by the State, stimulating distributive justice and blazing the trail toward the socialistic State."

Referring to cooperative effort throughout the nation, citing the sugar, textile, plantation and vegetable cooperatives, and stressing the necessity for elimination of exorbitant profits, General Calles said: "Fantastic returns of 40 to 100 per cent must pass, like feudalism, into history." In emphasizing the fact that the revolutionary program was really successful in its chief aim, namely, the gradual abolition of the peon, General Calles said that this program could be virtually achieved by means of the six-year plan.

An offer of the Mexican Government to cooperate with legitimate labor movements was coupled with a warning against "absurd radicalism" and "disintegrating theories" in a reply which President Rodríguez gave to a request for cooperation from the International Labor Office in Geneva.

General Manuel Pérez Treviño, former President of the dominant National Revolutionary party, and until recently regarded as the outstanding aspirant for the Presidency, abandoned his candidacy on June 7. This

action cleared the way for the nomination of General Lázaro Cárdenas, who resigned as Minister of War on May 15 in order to legalize his candidacy. He was thus left as the only contender for the nomination of his party. On June 10 it was reported that General Cárdenas had accepted the Presidential nomination of the Labor party in its national convention in Mexico City. He issued a denial next day, however, declaring that his brief speech before the Labor convention had been misinterpreted. Yet some believed that he had changed front because of a sudden decision by the leaders of the National Revolutionary party. Colonel Adelberto Tejeda, former Governor of Vera Cruz, after failing to secure the nomination of the Labor party, announced on June 11 that he had formally accepted the platform of the newly formed Radical party in Vera Cruz. The planks in this platform included the nationalization of land, the suspension of the rights of Catholic priests to perform their rites in Mexico, and the removal of all restrictions on immigrants, except natives of Spain.

The long drawn out conflict between the Catholic Church and the State of Vera Cruz has been terminated with a complete victory for the State. The compliance by the church with the restrictive clerical law of Vera Cruz, now two years old, was announced by Bishop Rafael Guizár Valencia of Vera Cruz on June 12. On the basis of this action, however, Bishop Valencia asked Minister of the Interior Vasconcelos for permission to reopen the hundreds of places of worship in Vera Cruz which have been closed since the church refused to recognize the law.

The resumption of diplomatic relations between Mexico and Venezuela, after a lapse of twenty years, was

announced by the Mexican Minister of Foreign Affairs on June 9. By this and the similar action in regard to Peru, Mexico's relations with the other Latin-American countries have technically become normal.

COSTA RICAN FINANCES

An agreement reached late in 1932 with the trustees of the bondholders of American and British loans to the Costa Rican Government effected a reduction in its deficit for 1932 to a little less than \$400,000 and saved it from an unprecedented budget crisis. Nevertheless, the service on the domestic and foreign public debts of Costa Rica is still large, the appropriation for that purpose for 1933 being about \$1,600,000. The country's public debt increased during 1932 by \$1,410,164, most of which consists of twenty-year 5 per cent bonds, issued in payment of interest on the American loan. The value of exports during 1932 was \$8,341,000 as compared with \$13,961,904 in 1931, while imports for 1932 amounted to \$5,332,290, as against \$8,487,854 in 1931. A favorable trade balance of \$3,008,780 was thus shown.

AFFAIRS IN NICARAGUA

Because of the cessation of hostilities in the northern departments since the submission of the Sandino rebels early in the year, the monthly budget of the Nicaraguan National Guard has been reduced from \$100,000 to \$75,000.

A law prohibiting the foreclosure of mortgages for a period of six months and fixing the interest rate at 9 per cent in place of the former rates of from 12 to 18 per cent was passed by the Nicaraguan Congress as a means of relieving the acute economic situation. In order to meet the budget deficit and to provide loans to coffee growers, the Nicaraguan Congress

also passed a law granting the President power to negotiate with the National Bank of Nicaragua for an emergency issue of \$1,500,000. The collection of sufficient funds to pay the interest due on July 1 on Nicaragua's sterling bonds of 1909 and the Cordoba bonds of 1918 was announced on June 10 by Irving A. Lindberg, High Commissioner and Collector of General Customs.

EL SALVADOR'S FINANCES

The Congress of El Salvador has authorized the coinage of \$2,500,000 in silver coins, each to contain twenty-five grams of the metal, as an emergency measure. It was announced in New York on June 15 that a protective committee of the holders of bonds of the Republic of El Salvador had obtained an agreement from the government of El Salvador by which 20 per cent of its customs revenues from Jan. 1, 1933, to Dec. 31, 1934, will be applied to the service on its external bonds.

FARM COLONIES IN SANTO DOMINGO

President Rafael L. Trujillo has established eleven farming communities in various parts of the Dominican Republic since he took office in August, 1930, on the principle that "agriculture is the backbone of the Dominican Republic." In addition, he plans to put 50,000 families on the soil by turning the jungles of the interior into flourishing farms and by the opening of modern motor roads to link towns that have been isolated for centuries. The farm colonies already established contain more than 300 Dominican families. They have been given expert advice, tools and every possible assistance; they have worked the virgin soil with unusual zeal and now have abundant crops.

Fascism in South America

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THE development of Fascist organizations in Chile and Argentina, with the possibility that the movement may spread to Uruguay, Brazil and Peru, is one of the striking results of South America's emergence from the revolutionary era of 1930-1932. Unlike devotees of the movement in other lands, however, the South American groups seem to be primarily defenders of the Constitution rather than remolders of governmental forms. The oath of the Chilean *Milicia Republicana* includes a pledge to die, if necessary, to defend the "system of democratic republican government"; to fight for respect of the Constitution and to "combat all tyranny, whether communistic, civil or military." The Argentine declaration of principles includes a pledge to fight the "professional politician, exploiter of the masses," as well as organizations "which call themselves workers' unions but exist to magnify classes for the destruction of the Argentine entity"; to oppose all extremists; to combat demagoguery; to be independent of political parties; and "to embrace nationalism founded on the ideals of the September [1930] revolution."

The Chilean group gave an impressive display of strength on May 7, when 15,000 members paraded in Santiago under command of Eulogio Sánchez Errázuriz and were reviewed by President Alessandri, whose régime they support. This "White Guard" was organized after the overthrow of President Montero, a constitutionally

elected President, by Carlos Dávila, and Marmaduke Grove, and was carried on with such secrecy that its appearance a year later, well drilled and equipped, caused a popular sensation and a Cabinet crisis, Premier Hevia resigning, in protest against the parade. The unofficial "militia" includes cavalry and artillery units as well as infantry, and is reported to possess complete equipment for the field.

The Argentine Fascists, or Civic National Militia, grew out of the "Civic Legion" which General Uriburu formed to support his revolutionary government in 1930. They attempted a demonstration in Buenos Aires on May 19, but were dispersed by a large force of police.

DEADLOCK IN THE CHACO

The anniversary of the first clash between the forces of Paraguay and Bolivia was celebrated on June 15 in both La Paz and Asunción by religious services in memory of those who had fallen in the struggle over the Chaco jungle. Solemnity was added to the ceremonies because the anniversary fell on the feast of Corpus Christi, one of the holy days of the Roman Catholic Church. Meanwhile, the committee of the Council of the League of Nations which has been seeking a solution of the conflict continued its efforts in Geneva. As this was written there seemed to be little prospect of early success, for both nations were standing to their guns, literally as well as figuratively.

A concentration of official activities for peace in Geneva was indicated on June 27 when the Commission of Neutrals in Washington voted to suspend its activities for the present and affirmed its support of the League's efforts. The ABC-Peru group has likewise practically abandoned its attempts to reconcile the belligerents, although dispatches from Buenos Aires and Rio de Janeiro on June 20 and 21 reported that efforts were being made to induce this group to renew its activities. According to the Buenos Aires report, Bolivia was trying to persuade Chile to take the initiative in renewing negotiations, while the Rio de Janeiro dispatch spoke of a rumor that Brazil had been invited to act as a mediator by the Paraguayan Minister to Brazil. This dispatch also stated that the Bolivian Minister had conferred with Senhor Mello Franco, the Brazilian Foreign Minister, on June 19, presumably on the same subject. Neither report was confirmed.

Prominent Bolivian and Paraguayan citizens residing in Buenos Aires are reported to have begun conversations looking toward a solution of the conflict by direct negotiations. An atmosphere of cooperation and compromise prevails in the conferences, which are seeking a formula which can be virtually accepted by both countries before formal negotiations begin. Discussions of the treaties of 1879, 1887 and 1894 indicate that efforts are being made to agree on one of these pacts as the basis of settlement. All three provided that Bolivia should abandon most of her territorial claims in the Chaco in return for a port on the Paraguay River between Fort Olimpo and Puerto Sastre.

The various steps taken by the League of Nations Council committee

have been duly reported in these pages. Briefly, the League's proposals provided for the cessation of hostilities, arbitration under terms to be determined by the council and the dispatch to the Chaco of a commission of inquiry authorized to establish definite frontiers. Developments during June follow. A Paraguayan note of June 6 suggested the immediate cessation of hostilities, the withdrawal of both armies and the dispatch of a League commission to fix responsibility for the trouble. Access to the sea for both countries was recommended. A Bolivian note of June 10 "deplored Paraguay's persistence in its territorial pretensions to the Chaco, which have no basis, diplomatically or legally, and do not facilitate peace negotiations." A further message from Bolivia on June 13 urged the League committee to endeavor to discover some means of direct negotiations with Paraguay with a view to concluding an arbitration agreement, "this being a condition on which all further action must depend." It will be noted that in these notes Paraguay stressed cessation of hostilities, followed by negotiations looking toward solution of the fundamental question, while Bolivia insisted that an arbitration agreement must come first. These positions have not changed during the month.

Paraguay on June 15 definitely accepted the League's proposals. Her reply, which included the points mentioned above, also asked for "effective assurances" intended to prevent further clashes, suggesting the retirement of the respective forces and the reduction of military effectives. A Bolivian communication on June 15 characterized the Paraguayan territorial claims in the Chaco as "monstrous" and asked the League committee to

induce Paraguay to reduce her claims so that negotiations would be possible. A Paraguayan message on June 19 accused Bolivia of "seeking delays in order to obtain advantages on the field of battle." In this note Paraguay insisted that cessation of hostilities was essential and must be accompanied by guarantees.

Bolivia's acceptance of the League committee's proposal to send a commission to the Chaco was found to be unacceptable by the committee on June 22, on the ground that Bolivia's terms had "altered the League's original proposal," which had already been accepted by Paraguay. On June 23, however, it was reported from Geneva that the League committee had come to an agreement with the Bolivian delegates, tacitly accepting the Bolivian point that cessation of hostilities and preliminary agreement on the arbitral zone must come simultaneously. The Paraguayan Ministry of Foreign Affairs on June 28 instructed the Paraguayan delegate at Geneva to insist that the termination of hostilities must precede any discussion of arbitration. The instructions added that when the time came to negotiate an arbitration agreement Paraguay would send a special delegation for the purpose. In the view of the Paraguayan Government, the negotiation of an arbitration agreement would necessarily take a long time.

These developments parallel rather closely the experience of the Commission of Neutrals in Washington. Fundamentally Bolivia and Paraguay still maintain their original positions. Paraguay holds that the Chaco dispute involves a boundary question, Bolivia a territorial question. Bolivia insists that a definition of the limits of any arbitration shall precede the suspension of hostilities, while Paraguay de-

mands a suspension of hostilities and guarantees before any arbitration agreement.

From the military point of view there has been little change during the last few weeks. The Bolivians have been unable to continue their drive, which at first assumed impressive proportions. General Kundt has been unable to take Nanawa, the Paraguayan Verdun, and is reported to be having difficulties in holding his front of nearly 200 miles, from Fort Toledo to Fort Sorpresa, with an army reduced by sickness and losses to about 30,000 men. Bolivia has called up additional reserves from classes of men 32, 33 and 34 years old to reinforce her armies. On the other hand Paraguay's troops lack the numbers and perhaps, worn out by the long conflict, the vigor, to make any impression offensively on the Bolivian line. Yet Paraguay has apparently been able to shake Bolivian morale recently by air raids in which bombs were dropped on Bolivian troops defending Forts Platanillos and Fernandez. Previously, the advantage in the air rested with Bolivia.

Argentine neutrality has undoubtedly handicapped Bolivia. The closing of the Pilcomayo River frontier has prevented supplies from reaching Bolivian headquarters through Argentina. Large stores of clothing, food-stuffs and gasoline are reported to have been stopped at Puerto Irigoyen and Ingeniero Juárez, and the whole Pilcomayo frontier, 260 miles long, seems to be tightly closed not only to munitions but to all kinds of supplies, as well as to the passage of persons.

Irritation between Argentina and Bolivia arising from the embargo has been intensified by other factors. A Bolivian aerial bombardment of Puerto Casado led to a protest by Argentina,

on the ground that the property of an Argentine citizen was damaged. The protest included a claim for indemnity. Two American firms also entered claims for damages caused by the bombings. A Bolivian reply on June 6 to the Argentine protest rejected the claims, and suggested reference of the matter to the World Court. This reply was not calculated to sooth Argentine sentiment. On the other hand, Argentina's refusal on June 8 to reopen Puerto Irigoyen in response to a Bolivian request served to increase irritation in Bolivia.

A further episode was the effort of General Toranzo, an exiled Argentine officer, to take advantage of the situation to start a revolt against President Justo. In return for Bolivian aid, the rebel General promised, if successful in overthrowing the government, to reverse the Argentine position on the blockade. According to reports, the proposal was promptly rejected by Bolivia, but on June 26 it was announced that the Bolivian consul at Salta had been given his passports, on the alleged ground that he had acted as an intermediary for plotters against the Argentine Government.

Reports from La Paz assert that the provinces of Northern Argentina did not favor the embargo, which has injured their trade with Bolivia in agricultural products.

The possibility that Arica, Chilean railhead of one of two railroads giving Bolivia access to the Pacific, might be declared a free port, was reported on June 20. Though not at present closed to Bolivia under Chile's neutrality proclamation because of treaty agreements, Arica's status as a free port would remove any possibility of an embargo on Bolivian supplies or munitions coming through the port.

THE LEAGUE IN LETICIA

The League of Nations commission entrusted with the task of governing and policing the Leticia area pending settlement of the question arrived at Leticia on June 25 and took possession of the territory. Peruvian troops were promptly withdrawn. The members of the commission are Colonel Arthur Brown, U. S. A., of the Judge Advocate General's Department; Captain Alberto Lemos Basto of the Brazilian Navy; Captain Francisco Iglesias, the Spanish aviator, and Dr. Armando Mencia, of Cuba. Colonel Brown is president of the commission. Great cordiality was manifested toward the commission, which was officially welcomed by César Velarde Más, Prefect of the Peruvian province of Loreto. Colonel Brown replied to the official greeting in Spanish. In order to reach their post within the prescribed thirty days, the members of the commission had to make their journey largely by plane, four days being taken by the journey up the Amazon on a Colombian cruiser. Under the terms of the agreement, the commission was to select the police force for the area. It was believed that Colombian troops would be "internationalized" for the purpose.

The assumption of direct control over the Leticia territory by a League commission is significant not only as the first instance of such action by the League, but as the first instance in which the League, rather than the American Government, was the protagonist of such an international drama on the soil of the Western Hemisphere. That the United States Government is not disturbed by the innovation is apparent from the assignment of Colonel Brown to the task.

Britain's Slow Business Revival

By J. BARTLET BREBNER

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F EARS have been expressed in Great Britain, just as in the United States, lest the recent improvement in business and the rise in prices have been largely speculative. It is understandable, for instance, that an industry which had been convinced that prices were being driven up would hasten to increase its stocks of raw material. The figures for British foreign trade during May showed no such improvement as that in domestic business turnover. Exports were £34,580,000 (£34,596,000 in 1932) and imports £57,290,000 (£55,735,000 in 1932). While the figures represented an improvement over April, 1933, this advantage disappeared when the number of working days was equated.

The statistics of employment were much more cheerful, indicating that internally at least there had been real improvement. During May the number of unemployed fell by 114,755 to 2,582,789, the lowest figure since May, 1931, and an improvement of 320,186 since January. The number of employed rose by 123,000 to 9,657,000, an improvement of 372,000 since January. Increased activity was reported in building, engineering, metal, woolen textile, clothing and footwear industries. Both iron and steel production were substantially increased. Cotton textiles were still badly depressed, and in spite of an increase in coal exports during May the number of unemployed coal miners increased.

Some members of the Labor Opposition interpreted the change for the

better as due to inflation. They recalled that £200,000,000 had been added to the exchange equalization fund on May 15 and that the Treasury bills for that amount had not been offered in the public market. Indeed, the Treasury had even abandoned its recent policy of converting some of its bills every week into long-term 2½ per cent bonds because that policy had upset the "gilt-edge" securities market. If no one bought the Treasury bills, the huge floating debt had merely been increased by £200,000,000. The Laborites, therefore, maintained that if the Treasury had not borrowed the money it must have created it. They added venom to their attack in Parliament on June 20 and 21 by suggesting that the government had been doing what the Labor Government had been blamed for, namely, using the deposits in the postoffice savings banks.

This ingenious attack, coming during the Anglo-American differences at the World Economic Conference (See pages 581-586), considerably disturbed the government. It denied that postal savings funds were being used, asserted that the whole transaction was mere bookkeeping between the Treasury and the Exchange Equalization Fund, and denied the charge of inflation by stating that the Treasury bills were issued for immediate purchase of gold.

That assertion brought the mysterious operations of the equalization fund into the foreground once more. Except during the period in late May

and early June when foreign competition put gold at a premium in the London free gold market, Great Britain retained most of the gold arriving in the country. The holdings of the Bank of England during the period rose only about £2,000,000 to a total of £189,221,503, on June 21, but the holdings of the exchange fund were not made public. June ended with the opposition maintaining that the government was either inflating or gambling in exchange on an unprecedented scale. If the exchange fund bought dollars during May, the United States had been doing its best to depreciate them since then. The government retired behind the screen conveniently provided by its current secret international negotiations over war debts and the matters before the World Economic Conference.

President Roosevelt's acceptance of £10,000,000 in silver at 50 cents an ounce as a "token" war-debt payment on June 15 had greatly strengthened the position of the British Government. A new element in its campaign against short-term "refugee capital" in London was a letter from Neville Chamberlain to Stock Exchange members warning them against facilitating its embarrassing entrance by negotiating large sales of foreign securities in London. Such sales have been the chief technique of the flight of capital from the United States. The government was particularly anxious to avoid a repetition of 1930 and 1931, when Great Britain borrowed short and lent long and then could not liquidate the called short loans when the European crisis spread. Every influence seemed to be driving the United Kingdom toward the purchase of gold, a policy quite in keeping with growing British economic nationalism.

There were signs of a deepening in

the struggle between the financial internationalism of London and the industrial nationalism of England, but the general scene was too complex for these manifestations to be very clear. The most obvious demonstrations of the anti-international spirit were in the hurried steps taken to meet Japanese competition in Indian and Eastern colonial markets by increased tariffs, the refusal to join in an international tariff truce and the passage through Parliament of the Agricultural Marketing Bill. When this bill becomes law, the United Kingdom will have an almost completely controlled economy so far as foodstuffs are concerned. Under it, when the producers of any agricultural commodity have secured approval from Parliament for their marketing organization, the Board of Trade will begin to regulate imports. In effect, a market supply committee of five, in cooperation with the Board of Trade, will issue licenses for both home production and the importation of foodstuffs.

The report of the Imperial Committee on Economic Consultation and Cooperation was published simultaneously in the United Kingdom and the Dominions on June 8. The general tendency of its recommendations in the economic field, which were analogous to those of the 1926 and 1929 Imperial Conferences in the political and constitutional fields, was toward the integration of various imperial organizations for agricultural research, and so forth, and their transformation from British organization and membership to an arrangement involving equal representation of the Dominions with the United Kingdom. It was, for instance, proposed that most of the functions of the Empire Marketing Board be transferred to the permanent Imperial Economic Committee.

The Imperial Communications Advisory Committee, a highly specialized body, was to be continued, as was the Imperial Shipping Committee, but the latter's organization was to be changed so as to insure constitutional equality. The Imperial Economic Committee was to be financed under a proportional subscription scheme, was to be independent of any one government and was to be empowered to deal with the Dominion governments directly. It seemed as if the individual nationalisms so evident at Ottawa in 1932 were perpetuating themselves in the permanent advisory bodies of the British Commonwealth of Nations.

THE ANGLO-IRISH TRADE WAR

There were persistent rumors throughout June that an Anglo-Irish settlement would be effected during the World Economic Conference. An unusually strong Irish delegation went to London and some observers saw an analogy between Irish behavior toward Great Britain there and the Soviet attitude toward the United States. The trade figures for the year ending April, 1933, added urgency to Irish efforts to end the trade war, by which she has suffered relatively so much more than the United Kingdom. An example is that, in spite of export bounties, the live-stock trade was cut by 50 per cent. Government spokesmen continued to demand Ireland's terms or nothing. Meanwhile, active progress was being made at home with legislation for small holdings and economic self-sufficiency. Rumors of an election were stilled by the statement that the government intended to stay in power for its full five years in order to complete its reorganization of Irish life. A new weapon against Senate obstruction was being forged in a bill to reduce to three months the period dur-

ing which Senate opposition can hold up legislation in the Dail.

RECOVERY IN CANADA

Canada has continued to share in the North American business revival, although as usual her recovery, like her depression, has been less emphatic than that of the United States. All the indices of business activity have turned upward. Probably the most encouraging change has been the rise in wheat prices to the neighborhood of 75 cents. Gold and silver have continued to profit from the monetary peculiarities of the day, non-ferrous and non-metallic minerals have gained in price, and only the prostrate paper industry has failed to profit by price changes. Its production increased in anticipation of greater demand in the United States and there were hopes that reorganization of the American paper industry under the Industrial Recovery Bill would involve higher prices which would be immediately reflected in Canada. Little or no progress, however, was apparent in the much-needed reduction in productive capacity and capital structure.

After the disappointments of the April statistics of foreign trade, May provided a really heartening picture, not only in its reversal from April but in its substantial gains over 1932. Exports were \$45,576,000 (\$40,476,000 in 1932) and imports \$32,927,000 (\$44,361,000 in 1932), thus converting a deficit of almost \$4,000,000 into a surplus of \$12,649,000. Among the exports there were increases in practically all classes to the United Kingdom (chiefly grains, live stock, meats and non-ferrous metals), and in several classes to the United States. For the year ended April, 1933, exports to Great Britain were \$188,675,000, an increase of 13 per cent over 1931-32

during a period of declining trade. At the end of May the Dominion Bureau of Statistics calculated that Canada gained \$23,000,000 in net balance during 1932, because her trade surplus of \$80,000,000 and gold export of \$67,000,000 more than compensated for the adverse invisible balance.

Although the proposed revision of the Shipping Act was not carried out during the last Parliament, two amendments were passed providing for the complete exclusion of foreign ships from Canadian coastal trade and from the carrying business between Canadian ports on the Great Lakes. The country aimed at was the United States, although some Scandinavian tramp steamers would be affected, both on the oceans and the lakes. Canada has received abundant provocation from similar American legislation against Canadian shipping, but powerful Canadian transportation interests were still doubtful about their capacity to face reprisals in the way of restrictions on Canadian carriage of Oriental and Alaskan products to the United States. In addition, the farmers of the West were openly apprehensive lest a Canadian Lakes monopoly might raise the rates for carrying grain.

It was reported in New York early in June that private American negotiators had reached an agreement with the British Government on the conditions under which Canadian grain passing through the United States might enjoy British preference. Buffalo has been very hard hit and the movement of Canadian grain through New York has been only 40 per cent of 1932. The procedure agreed upon involved abundant documentation to prove that a United Kingdom order had been accepted by a Canadian seller and that the grain had not been manipulated en route.

It was announced on June 28 that Canada had completed her external loan refunding for 1933 by selling \$60,000,000 in Treasury notes in New York. This left the decks clear for the huge internal conversion loan planned for the Autumn.

On June 25 it was announced that the British Government would place at Newfoundland's disposal funds sufficient to make up the amount of bond interest falling due on June 30 and July 1. Canada assumed half of a similar responsibility six months ago.

AUSTRALIAN REVENUE GAINS

While it is impossible to be definite about an increase in popular welfare in Australia, it is clear that the Federal and State Governments have set their financial houses in order. The Federal budget is now calculated in terms of surpluses which are rising with swelling customs revenues. The State budget deficits have been reduced to £8,500,000, of which £4,500,000 represents sinking fund payments. The internal loan of £5,000,000 for public works was oversubscribed by £3,000,000 and Stanley M. Bruce secured permission from the British Treasury to convert £11,400,000 of 6½ per cent overseas loan to a 3½ per cent short-term issue. Unemployment has been steadily reduced by the substitution of public employment for the dole. The prices of wool and wheat were rising steadily. New Zealand, too, has shared in the better times. Her Treasury showed a surplus of £40,000 in place of the expected deficit of £1,000,000.

SOUTH AFRICAN GOLD TAX

Expectations of a quiet session in the Union Parliament of South Africa because the opposition to the coalition amounted to only twelve members in four groups have been disap-

appointed. Freed from party obligations, members have made such intelligent criticism of the budget and finance that a general reorganization of Union and Provincial finances is likely to take place.

The new tax on the gold mines has attracted most interest, not only because of the collapse which it caused in the stock boom but because for once mine owners and workers have united in opposition. Minister of Finance Havenga and Minister of Mines Duncan, his deputy during his absence in London, have clung to the taxes on gold by which they planned to collect £20,000,000 for balancing the budget and easing the farmers' loan and mortgage obligations. The regular tax, or governmental share of mine output, was expected to yield £13,800,000. The new tax on excess profits, owing to the premium on gold since relinquishment of the gold standard, was to yield £6,000,000. Its burden has been the subject of grave disagreement, but it seemed to amount to from 58 to 60 per cent of the automatically increased profits. The mining interests held that it would prevent them from taking advantage of the opportunity to process low-grade ores.

One of the odd features of the Ottawa Conference in 1932 was the self-election there of Southern Rhodesia to Dominion status, a procedure which was continued last Spring at the meeting of the Imperial Economic Committee. No protests were made and presumably the manoeuvre will slowly be accepted. It has received added emphasis from the unofficial conference during June of Northern and Southern Rhodesia with a view toward union. Northern Rhodesia could in this way escape from the control of the Colonial Office in London, and perhaps

from its policy of Africanization of the services. Southern Rhodesia would treble the area controlled by its whites, but add only 15 per cent to their number. The added native population would be about 1,300,000, and the great new copper mines would be in the united Rhodesia. Union seems inevitable in time, but present circumstances appear to be hastening it.

THE INDIAN REFORMS

The progress toward the new Indian constitution has remained obscure. Hardly any news of the joint committee's deliberations in London has emerged, and most attention has been given to the revolt against the new scheme in the Conservative party. This movement was seriously checked by Stanley Baldwin at a full-dress party debate on June 28. In India the situation has become very complicated. Gandhi, who has recovered very slowly from his fast against Untouchability, is expected to assume leadership of the Congress party again and draw together its different factions, but he seems to be unable or unwilling to do so. Civil disobedience was suspended for a further six weeks on June 17, although the Government of India failed to respond to the pleas for the release of political prisoners.

Protests against the new constitution range from the justifiable fears of the subjects of the Indian princes lest they be consigned to perpetual autocratic government within the States, to every kind of minority and majority protest. Yet there seemed to be a greater interest in the positive changes expected and a tendency, because of the vigorous British Conservative opposition to the reforms, to force the various Indian groups to unite on some demands to the joint committee.

French Financial Policy

By GILBERT CHINARD

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UP to the moment that President Roosevelt rejected the demand of countries on a gold standard for temporary currency stabilization, the leader of the so-called "gold bloc" at the World Economic Conference was France. While the British and American delegations appeared to be in a divided mind about the objectives of the conference and of the means of achieving them, the French representatives, with customary Gallic incisiveness, were clear both in their own minds and in their announcements to the conference of what they desired.

Premier Daladier on June 9 defended the foreign policies of his government before the Chamber of Deputies and incidentally outlined the position that was to be taken by France at London. He expressed his strong opposition to a general inflation of currency and reaffirmed his belief that "it is necessary for the nations which have abandoned the gold standard to resume it as soon as possible." He further declared that a redistribution of the stocks of gold could not be satisfactorily arranged through banking measures but could result only from a return to normal economic conditions. In reply to questions from M. Flandin and M. Franklin-Bouillon, he denied that the government had sacrificed the allies of France in adhering to the Four-Power Pact, explaining that it had to choose between cooperation with the rest of Europe, particularly with Great Britain, and

a complete break. After listening to these glosses on the Cabinet's policies M. Herriot, who had opposed the Four-Power Pact, withdrew his objections and moved a vote of full confidence in the government, which was carried by 405 to 169.

After returning from the early sessions of the London Conference, the Premier on June 14 took an optimistic view of the prospects of the conference, but reiterated his belief that "no effective work can be done unless the dollar is stabilized." On June 17 he again outlined the French program to newspaper correspondents, stating that the economic problems could not be solved before the stabilization of currencies and a return to the gold standard were accomplished. He again maintained that these were preliminary conditions without which all measures that might be advocated would be absolutely worthless. He went on to dissipate any hopes that France might bargain over tariffs by declaring that conditions regulating production and consumption throughout the world had been so modified as to render impossible any consideration of automatic reductions of the French tariff and quota system as long as production is not systematically organized. If the tasks of the conference are viewed in the light of these profound difficulties, M. Daladier's original expression of optimism must be taken with a grain of salt or as a polite *prologue diplomatique*.

The strong and unequivocal position

of France at London could scarcely have been taken had the conference met earlier. Recent changes in the domestic situation of France and in the European system underlie France's strong policy abroad. The prospect of treaty revision has receded since Hitler came into power in Germany, and France needs no longer to cultivate by every possible means support abroad against that danger to herself and her allies. The budget tangle was straightened out just in time to clear the domestic atmosphere and leave the Cabinet a free hand for its foreign policy. The Bourse and government securities have gained strength and gold is again flowing into the coffers of the Bank of France. The Treasury has felt strong enough to pay off a railway loan contracted in Holland, to authorize a French banking group to lend \$20,000,000 to Belgium and to contemplate the liquidation of a £30,000,000 British loan before it falls due. On June 29, the Bank of France held 81,245,000,000 francs in gold, about 2,000,000,000 francs less than the all-time high of last December, but nevertheless an increase over previous months and of greater value in terms of American dollars today.

Another factor, this time an unfavorable one, added to the French determination to secure currency stabilization abroad and a general return to the gold standard. In spite of an unusually high tariff wall and a meticulously managed quota system, the French trade deficit is growing. For May imports totaled 2,465,000,000 francs against exports of 1,479,000,000 francs. For the first five months of 1933 imports amounted to 12,702,000,000 francs, while exports were only 7,549,000,000 francs. Now that tourist expenditures are greatly diminished and reparation payments

have all but vanished, this huge deficit is becoming increasingly serious. This situation gave rise eighteen months ago to the quota system that is now under fire at the London conference. But France cannot see her way clear to relaxing the system so long as depreciated currencies abroad place French exporters at a disadvantage in international trade. Up to July 1 the government renewed its quotas on approximately 1,800 products, and the quotas on a large number of agricultural products were reduced by a regulation issued on June 29. Moreover, the government on June 20 presented a bill to Parliament raising tariffs on more than 100 manufactured articles that come mainly from Germany in retaliation for recent German tariff increases on French products. The French press and public opinion appeared to be solidly behind M. Daladier's government in its trade policy and its demand for stabilization and the gold standard. A small group of exporters, however, was agitating for the abandonment of the gold standard in order to enable them to compete more effectively in the markets of foreign countries.

Though the position of the Daladier Cabinet is stronger now than it has ever been, its difficulties are far from being over. The new taxes in the 1933 budget have created a great deal of discontent and the Taxpayers League is renewing its protests. At Albert an auction sale of agricultural implements for non-payment of taxes by a farmer occasioned scenes recalling those of the American Middle West, and jurists in articles published by the newspapers try to impress the public with the idea that if the Parliament has the right to refuse to vote taxes the citizens cannot refuse to pay them. On the other hand, the

general opinion seems to be that taxation has reached such a point that it cannot be increased without seriously endangering commercial transactions. For the first four months of the year tax returns amounted to 11,038,000,000 francs, a decrease of 634,000,000 from the corresponding period of last year. Commercial failures for the same months totaled 4,988. The number of those unemployed receiving assistance from the State was 283,000 at the end of May, practically the same number as last year at the same date, but about 50,000 less than in February. A census of factories employing at least 100 workers indicated that out of 2,374,914 those working less than forty-eight hours a week amount to 39 per cent, while a year ago at the same date the proportion of partially employed was 56 per cent. On the other hand, the railroads reported a decrease of 6.40 per cent in their receipts for the period from Jan. 1 to May 31. Carloadings fell from 6,569,000 to 6,400,000. M. Lamoureaux's proposal to grant the government the right to regulate import taxes by decree was unfavorably reported by the Tariff Committee of the Chamber of Deputies. The committee substituted for it a plan that would enable the government to raise, but not to decrease, import duties during the Parliamentary recess, such measures to be subject to the approval of the Chamber at the beginning of the next session and to be automatically discontinued if not ratified.

The attitude of the French Government and people toward the debt question remains unchanged. The possibility of paying America the amount due last December has not even been discussed; the note of the French Government to President Roosevelt and the answer from Washington were

published without any comment by the press. On this point there is a complete impasse, the French public taking the position that the Hoover moratorium introduced an entirely new element in the situation and that no payment can be made except under a new agreement. Even M. Herriot, who had advocated at least a partial payment after his return from Washington, remained silent on the occasion. There was much disappointment at the refusal of Washington to consider the immediate stabilization of the dollar; but the fluctuations of the American standard of exchange reacted rather in favor of French Government bonds. The French 3 per cent rentes regained more than a point over last month, closing on June 16 at 69, and all other French Government issues experienced a similar advance.

Before Parliament adjourned for its Summer recess two important questions were to be presented by the government for discussion. A complete reorganization of the French Line was scheduled to be submitted to the Chamber on June 27. According to this plan, the flotation of a new loan to be guaranteed by the government would be authorized and a certain number of government representatives would be added to the board of directors of the line. The Chamber was also to be asked to decide on the quantity of Algerian wine that can be admitted into France without disturbing the domestic market.

The fear of aerial invasion and bombing continues to haunt the imaginations of the French. A congress for the protection of the civilian population against aerial warfare which met on June 17 at the Sorbonne under the presidency of M. Désiré Ferry, former Minister, discussed protective measures to be taken in case of bombardment by airships.

The French press commented on the fact that the United States had recalled its commercial attachés in Europe and reduced by 75 per cent the personnel of the foreign trade office at home. Another sign that America is passing through very hard times was seen in the appeal for funds issued by the American Library in Paris. Established shortly after the war and mainly supported by the American residents in Paris, the library had been for more than twelve years an important centre of information for French as well as American students. It is hoped that the French themselves will contribute toward the support of a most useful institution that is now in danger of closing its doors for lack of sufficient funds.

The new American Ambassador in

Paris, Jesse Isidor Straus, presented his credentials to President Lebrun on June 8.

BELGIAN ECONOMIES

The Belgian Government, authorized by Parliament after long and stormy discussions to regulate financial matters by decrees, published on June 1 a series of new regulations. All government salaries and pensions were reduced by 5 per cent; government subsidies were cut by 20 per cent; legislation concerning unemployment was drastically changed and work for the unemployed made compulsory. These measures met with an unfavorable reception on the part of the Socialists and even the Christian Democrats. Both parties were preparing to attack the government because of these measures when Parliament reconvened on July 18.

The Nazi "Totalitarian" State

By SIDNEY B. FAY

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THE German National Socialists have recently borrowed another slogan from the Italian Fascisti—the establishment of the "Totalitarian State." This means that the Nazi revolution must go uncompromisingly forward until it embraces the totality of the German people in every phase of activity. Germany must become 100 per cent National Socialist. Speaking to his lieutenants in Berlin on June 14, Chancellor Hitler declared that the extension and reinforcement of the Nazi movement was essential in the interest of the new Germany. "Decisive for any real construction of the State is its underlying philosophy," he said. "The bearer of the philosophy

of the new Germany is the National Socialist party. Therefore it must expand, for in this movement are the roots of its strength. The law of national revolution has not run its course. Its dynamics still govern developments in Germany that irresistibly tend toward the complete reconstitution of German life."

Dr. Goebbels, the Minister of Propaganda and Enlightenment, put the same idea more forcibly a couple of days later: "The revolutionary forces must be directed into all channels of public life. That is the real sense of coordination (*Gleichschaltung*). This coordination only outlines what will be the normal condition of Germany.

This Germany is to have only one goal, one party and one conviction, and this State organization is to be identical with the nation itself. Revolutions know no compromises. The State must stand for the principle of totality."

State Councilor Waldmann of Württemberg, summarizing these views to his administrative officials at Stuttgart, explained: "The principle of totalitarianism of the Third Reich involves not only the dissolution of Marxist parties, but the absorption of all other parties." The spirit in which this was to be accomplished was indicated by Herr Sauckel, the Nazi Governor of Thuringia, who declared in the town where the liberal and tolerant Weimer Constitution had been born: "I command you now to show intolerance against all else [other than the proletarian National Socialist State.] Henceforth there must be but one political faith in Thuringia—National Socialism. Discussion of matters affecting our existence and that of the nation must cease altogether. Any one who dares to question the rightness of the National Socialist world outlook must be branded as a traitor."

In accordance with this totalitarian conception, the Nazis, after outlawing the Communists as a sequel to the Reichstag fire, and after forcing the dissolution of several minor political parties, proceeded toward the end of June to the elimination of the Social Democrats, of the State (or Democratic) party and also of the Hugenberg Nationalists. This left as the only party still to be "coordinated" the Roman Catholic Centre. The Nazis have also coordinated the labor organizations, the youth organizations and the remaining semi-military training organizations outside the Nazi organizations. Even the newly formed and

unified German Evangelical Church has been forced to bow in submission.

The German Socialists, or more accurately the Social Democrats, were steadily weakened and undermined by the Nazis until the party was finally suppressed on June 22. Many of their newspapers had been suspended or banned and many of their leaders imprisoned or forced to seek safety in flight after the burning of the Reichstag building, when the Nazis attempted to fix complicity on them as well as on the Communists. Four-fifths of the Social Democratic leaders were indeed allowed to attend the first Reichstag meeting under the Hitler régime, but they refused to vote in favor of placing virtually dictatorial power in Hitler's hands. Later they were further weakened by the Nazi raids upon the trade-union headquarters and the sequestration of the trade-union funds and offices, the labor unions being "coordinated" into the Nazi labor organization known as the German Labor Front.

The sweeping decree issued by the National Socialist Government on June 22, which virtually outlawed the Socialist party, declared that "recent events have furnished indisputable proof that German Social Democracy does not shrink from treasonable attempts against Germany and its legitimate government. Prominent Social Democratic leaders, such as Wels, Breitscheid, Stampfer and Voegel, have for weeks been waging warfare from Prague against Germany's National Government." The leaders who remained in Germany were taken to task for not having excluded from the party these "traitors" to Germany. Therefore the Nazi authorities held that "the Social Democratic party must be considered as subversive and inimical to the State and people, and thus can claim no other treatment

than that accorded to the Communist party." Accordingly the decree ordered that Socialists who were still members of the Reichstag and the State Legislatures must at once be deprived of further execution of their mandates and their pay as such was suspended. Civil servants and other public employes can no longer draw pay or pensions from the government as long as they belong to the Social Democratic party. "No more propagandist activities by the Social Democratic party henceforth are permitted and its assemblies are forbidden. No Social Democratic newspaper or periodical may be issued. The property of the party and its affiliations is to be sequestered."

Thus came to an end the party which had the greatest numerical strength in the Reichstag just before the World War, which took a leading part in drawing up the Weimar Republican Constitution, and which remained the largest political party until it was overshadowed by the Hitlerites. The disappearance of the Social Democrats from the Reichstag definitely insures the Nazis an incontestable majority in that body, independent of the Nationalist and Centrist parties, in the event that the suspended Legislature should ever again be summoned to act. The suppression of the Socialists presaged that of the Hugenberg Nationalists a few days later.

Dr. Alfred Hugenberg was taken into the Hitler Cabinet when it was formed last January because of his wide influence through his great chain of newspapers and his control of movie films, because he was the leader of the Nationalist party, and because Hitler needed the cooperation of the Nationalists to win the majority of the popular vote that would put dictatorial power into his hands. It was

originally expected that Hugenberg, von Papen and the other non-Nazi members of the Cabinet would be able to exert a good deal of restraining influence on Hitler and his followers. But such has not been the case. Hugenberg's power in the Cabinet has grown less and less, and his position more and more uncomfortable. Either he was not consulted or things were done of which he disapproved. His practical power was greatly diminished when the Steel Helmets, which were largely Nationalist in political sympathies, were "coordinated" with the Nazi party.

In accordance with the totalitarian principle, which aims to exclude or suppress all organizations except those under Nazi control, Hitler on June 21 decreed the suppression throughout Germany of Hugenberg's small private green-shirted semi-military force known as the German National Battle Ring, in which about 10,000 young Nationalists were enrolled. The immediate reasons given were the usual ones—that the Battle Ring had become honeycombed with subversive Marxist and Communist elements; that its management had failed to take any purifying action, in spite of information placed at the party's disposal by Goering's political police, and that therefore the government found itself forced to resort to summary suppression. This, it was stated, was not to be regarded as involving any hostility to the so-called National German Front, to use the name by which the revamped Hugenberg Nationalist party has been known in recent months. It was, nevertheless, something of a Nazi slap in the face for Dr. Hugenberg.

Meanwhile Dr. Hugenberg had gone to London as a member of the German delegation to the economic con-

ference. Possibly as a last bid to restore his prestige and influence in Germany, Dr. Hugenberg startled the conference and the world by handing in a memorandum insisting that if Germany were to pay the interest on her debts she must be given back her colonies and be given land to the east of Germany. Whatever may have been his motives, his memorandum had the worst possible effect on his own personal fate and on Germany's relations with her neighbors, especially with Russia. The Nazi Government in Berlin at once disavowed Hugenberg's memorandum as merely expressing his own personal views and not those of the German Government. Instead of strengthening his position at home, it apparently weakened him still further, or at least gave the Nazis a further handle for getting rid of him and his Nationalist party altogether.

The Nazi Press Bureau, on June 27, announced that leaders of the German National Front, that is, the Hugenberg Nationalists, after a conference with Chancellor Hitler, had decided "voluntarily" to dissolve their party by an "amicable agreement" under which all Nationalist deputies would become affiliated with the Nazi party. This was accompanied by the news that Dr. Hugenberg had submitted to President von Hindenburg his resignation as Minister of Agriculture and Economics in the Hitler Cabinet.

Dr. Hugenberg's resignation was in no sense unexpected. It came as the natural climax to the Nazi policy of edging out of influence all persons except members of their own party. It was also a natural consequence of bitter feuds within the Cabinet. Almost from the moment of his becoming Minister, Dr. Hugenberg was at odds with "The Leader" (Hitler) and with other group interests. First, it was op-

position from the bankers, because of what they characterized as his dilatory tactics. Labor then criticized him for raising the price of margarine in the interests of the farmers. Big industrialists, who had formerly been friendly to him as one of their own members, deserted him when they felt that he was giving away before the demands for economic self-sufficiency. Finally came his London memorandum asking for the German colonies in Africa and for more room to expand in Eastern Europe.

At the same time that the Hugenberg party was "voluntarily" dissolved, the Nazis also put an end to the State party, formerly known as the Democratic party. Its members were deprived of their seats in the Reichstag and the Prussian Legislature, on the ground that the party had pooled its interests in the last election with the Social Democratic party, which had been banned a week earlier. Nazi raids were also made on the Bavarian People's party, the South German offshoot of the Catholic Centre party. Its papers were seized and some of its leaders arrested, so that its power was broken.

Of all the German political parties, therefore, apart from the Nazis themselves, the only one left was former Chancellor Bruening's Roman Catholic Centrist party, and even its existence, at the moment these lines were written, seemed precarious.

Friction between the National Socialists and the Roman Catholics has steadily increased as the result of Catholic apprehensions over the expanding cultural aims of the Nazis. Much indignation and alarm was caused among the Catholics on June 4 by the removal of Dr. Berthold Alttau, Professor of Church History in the Catholic theological faculty of the

University of Breslau. He was dismissed by Dr. Bernhard Rust, the Prussian Minister of Culture and Education. The Catholics regarded this as an unwarranted interference with their freedom of instruction and the tenure of ecclesiastical officials. A little later several priests in the Palatinate and Württemberg were maltreated by Nazis. One was mobbed by a Nazi crowd which denounced him as a traitor and wrecked his home.

A pastoral letter issued by the conference of Catholic Bishops at Fulda on June 9 declined unequivocally any "coordination" in the sense of incorporation in a "national church" as wholly inconsistent with the universal character of Catholicism. The conference also expressed the opinion that some of the recent phenomena of the political overturn in Germany, including the Nazis' racial discrimination against the Jews, was merely the frothy foam of the fermentation going on, and voiced the hope that this would soon end. It went on to warn the German Government not to abridge individual liberty more than was indispensable for the commonweal. Within these limits the Bishops hailed Germany's resurgence after years of curtailment of her rights.

More than 20,000 Catholics planned to take part early in June in a national convention of Roman Catholic journeymen. Plans for the convention, to be attended by many representatives from foreign countries, including the United States, had been made a year in advance. Suddenly, without giving reasons, the Nazi government of Bavaria forbade it to take place. The ban, however, was removed three days later, perhaps because one of the speakers was to be Vice Chancellor von Papen. But the police announced that there must be no street parades nor open-air demonstrations, and that

banners must not be displayed elsewhere than in the convention hall itself. Apparently these regulations were not strictly observed by the delegates, some of whom were alleged to have worn orange shirts and other emblems.

The result was a serious clash between the delegates and the Nazis, in which many Catholics were severely handled. Von Papen made his address, but was constantly interrupted by derisive Nazi shouts. On the second day of the convention, the conflict reached its climax when Nazi Storm Troops occupied the entrances, barred out the delegates, and prevented Cardinal Faulhaber, the Archbishop of Munich, from celebrating mass in the convention hall. The police then announced that those in charge of the convention were constrained "to break off the convention prematurely, of their own accord."

Later in June von Papen made another visit to Rome, presumably with the same purpose as his visit last Easter. He was anxious to obtain from the Pope for the National Socialists a new concordat for the whole Reich, combining, and possibly extending, the existing concordats with Prussia, Bavaria and Baden. At the same time he would persuade the Pope to use his influence to have the German Catholics abandon their political or semi-political organizations and allow themselves to be more fully coordinated with the new Germany. Any such agreement between Berlin and the Vatican is difficult to achieve on account of the school question. The German Catholics have held tenaciously to their denominational schools and religious instruction as the very basis of their power over the rising generation. From the standpoint of their own interests this has

been a wise policy. They will therefore do their utmost to prevent Chancellor Hitler from carrying out the threat which he made at Erfurt on June 18—to take away the children from non-Nazi parents who resist the program of the Third Reich. "If the older generation cannot get accustomed to us," Hitler said, "we shall take their children away from them and rear them as needful for the Fatherland. * * * We shall accomplish what the future hopes from us. Let it be written on our epitaphs, 'We have been hard; we have been ruthless; but we have been good Germans.'"

The German Lutherans, in line with the Nazi policy of unifying Germany, combined their twenty-nine separate churches into a single German Evangelical Church and chose Dr. Friedrich von Bodelschwingh as their Bishop. In so doing they hoped to be allowed freedom in spiritual matters from State interference, and this was virtually promised to them at first by Chancellor Hitler.

But the hope of the Protestants that they would be left free from interference by the Nazis proved vain. Dr. von Bodelschwingh's election as Bishop was immediately contested and opposed by a Nazi army chaplain, the Rev. Ludwig Mueller, who wanted the position for himself, and by the Nazi German Christians, headed by Dr. Joachim Hossenfelder. They refused to recognize the legality of the new Bishop's election. Captain Hermann Goering, Prussian Premier and right-hand man of Hitler, declared that the new united Evangelical Church had no right to act without his approval, since he, as Prussian Premier, was the direct successor to the King of Prussia, who was supreme Bishop (*Summus Episcopus*) of the Prussian State Church. He therefore delegated all

powers accruing to him as *Summus Episcopus* to August Jaeger as Reich Church Commissioner for Prussia. Dr. Jaeger appointed Nazi German Christians to the leading subordinate ecclesiastical posts so that the Protestant Church would be immediately "coordinated" under Nazi control.

Thereupon Dr. von Bodelschwingh felt compelled to resign, since he could no longer freely exercise his functions as Bishop. In surrendering his office he called for "a rejuvenated, living church, in which, however, things spiritual shall be treated spiritually, and in which the confession and preaching shall remain free from all political pressure. The struggle for such an inwardly free church goes on. This struggle is at the same time a struggle for the soul and the future of our people. The uncounted multitude who are of the same way of thinking should close their ranks and not lose courage. Let groups form everywhere of those prepared for common work and common prayer. Our hope is not with men, but with the living God."

In connection with this church struggle, Goering made a statement which is significant of the Nazi method of dealing with all their opponents. He issued a decree instructing officials, workers and other employes to regard anybody making remarks calculated to cause dissatisfaction with the government's actions as "Marxists in disguise" and to report them to the proper authorities.

International pressure of public opinion from outside Germany has forced the Hitler government to make two important concessions in regard to persecutions of the Jews in Upper Silesia and in the matter of Jewish athletes taking part in the Olympic Games.

By abstaining from voting the German Government on June 6 allowed the Council of the League of Nations to adopt in a binding way the report of Sean Lester holding that the application of anti-Semitic measures in Upper Silesia, complained of in the petition of Franz Bernheim, violated the convention with Poland for the protection of minorities in the region. The Hitler régime also improved on its previous promises by stating formally that anti-Semitic "measures taken by subordinate authorities that were not compatible with the Silesian convention would be corrected."

By these concessions Berlin succeeded in quieting this question, at least until the September meeting of the Council. Czechs and Poles, however, made it clear that they intend to use this question as a lever for extending the system of minority treaties to cover all Germany, whereas the League protects only the Silesian minorities in Germany. Arbitrary steps taken against Jews in Upper Silesia by over-zealous Nazis commissioners or similarly self-appointed Nazi executives have been stopped and the authorities have obviously endeavored to convey the impression that everything was being done to make the lot of the Jews as easy as possible. Hermann Brueckner, recently appointed Governor of Silesia and generally regarded as one of the strong men of the Nazi movement, made a significant speech in favor of religious toleration. He pledged himself not to make any changes from the minority policy of his predecessor, Dr. Hans Lukaschek, whose fairness always found favorable acclaim at Geneva.

At the meeting of the International Olympic Committee in Vienna early in June the United States delegate, General Sherrill, supported a resolu-

tion that the Olympic Games, scheduled to be held in Germany in 1936, should be transferred elsewhere unless the right of free competition was accorded to all Jews, including those of Germany as well as of other countries. The feeling was so unanimous that the Berlin Government yielded at once.

On the other hand, the Reich Ministry of Posts, Telegraphs and Telephones has begun a searching investigation into the antecedents of its 350,000 employes to comb out all those of Jewish extraction who are liable to dismissal under the non-Aryan provisions of the Civil Service Act of April 4. The Hitler government has suppressed the subvention formerly given to the Jewish Church. The Berlin Press Association on June 27 formally expelled from membership five distinguished Jewish journalists: Theodor Wolff, long editor-in-chief of the *Berliner Tageblatt*; Friedrich Stampfer, former managing editor of the Social Democratic organ, *Vorwaerts*; Hermann Zucker, editor of the widely read *Acht-Uhr Abendblatt*, and Max Choen-Reuss and Alfons Goldschmidt, both well-known radicals and pacifists.

A pamphlet of a hundred pages, *The Jews in Nazi Germany: The Factual Record of Their Persecution by the National Socialists*, has been issued by the American Jewish Committee, 171 Madison Avenue, New York City. It sums up with documentary and newspaper material the first phase of the Nazi anti-Semitic campaign.

GERMANY'S FOREIGN RELATIONS

Germany's relations with Russia, which have been generally friendly during the past dozen years, appear to be moving toward marked coolness.

Germany was the first of the great powers to accord recognition to the Soviet Union as far back as 1922. Germany enjoyed a greater export trade to Russia than any other country, partly because of this recognition, partly because Germans understood the Russian market and granted generous long-time credits, and partly because Germany can supply cheaply the machine goods and equipment which Russia needs. Common hostility to Poland was still another bond of friendship between the two countries. But the Hitlerite government has done much to destroy this long-standing friendship. (See Professor Furniss's article on pages 629-632 of this magazine.)

Dr. Schacht's announcement that Germany's slight favorable balance of trade would make it impossible for her to pay interest and amortization on her long-time obligations caused much dismay among foreign holders of these obligations. Following up this announcement, the German Government on June 8 declared a moratorium on further payments abroad on these obligations. Negotiations in Berlin and at the London Economic Conference took place between Dr. Schacht and representatives of the foreign creditors. As a result, Dr. Schacht seemed inclined to relax slightly the extreme stand which he said he had been forced to take. It seems likely that he will continue full payments on the Dawes and Young Plan bonds and partial payments of interest, perhaps one-half, on the other long-time obligations. The rest of the interest would be paid in marks into a "blocked account" to be transferred abroad later when export trade makes it possible.

AUSTRIA AND THE NAZIS

The conflict between the Nazis in Austria, who want to gain control and

coordinate Austria with the Hitlerite government in Germany, and Chancellor Dollfuss, who is determined to keep his republic independent of foreign dictation, increased in bitterness during the first three weeks in June. (See the article, "Austria Resists Nazi Imperialism," on pages 541-546 of this magazine.) Several bomb outrages occurred in Vienna, which were attributed by the police to Nazis who were believed to be trying to overawe the Dollfuss government by the use of violence. In consequence, Nazi headquarters were raided and closed, as was also the house in Braunau in which Hitler was born, now regarded by the Nazis as a kind of shrine. In the course of a week more than a thousand Nazis were arrested and jailed, the same kind of treatment being applied to them as the Nazis in Germany applied to the Communists and to many Socialists and liberals.

Among those arrested was Theodor Habicht, a Nazi member of the German Reichstag and "State Inspector" for Hitler of the National Socialist party branch in Austria. He had been attached to the press bureau of the German Legation in Vienna, but as he had been charged with carrying on active anti-Dollfuss propaganda, the Austrian Chancellor had objected to him as *persona non grata* and had refused to accord him diplomatic immunity. He was therefore forthwith expelled from Austria. The Hitler government immediately retaliated by arresting and expelling from Germany Dr. Erwin Wasserbaeck, the duly accredited press attaché of the Austrian Legation in Berlin. He hastened to London to give his personal account to Dr. Dollfuss, who was attending the London Economic Conference.

A few days later a more serious bomb outrage occurred at Krems in

Austria. Two bombs were hurled from an embankment at a detachment of Heimwehr auxiliary police as they were marching back to their quarters. Thirty-two of the detachment were seriously wounded, two probably fatally. Investigation revealed that this again was the work of Nazis. The Austrian Cabinet therefore decided to outlaw the Nazi party. Nazis were forbidden to engage in any form of political activity, to form any other political party or to wear the swastika badge or any other party emblem. Their newspapers were suppressed and Hitler's chief organ, the Munich *Voelkischer Beobachter*, was prohibited from circulating in Austria.

This suppression of the Nazi activities in Austria at once brought a cry of rage and defiance from the Nazi-controlled press of Germany. With one accord the papers represented Dr. Dollfuss's blow at the Austrian Nazis as "a triumph for France," and they

accused him and his colleagues of being traitors to the German cause paid with foreign money.

The reference to "paid traitors" relates to the long-ago-promised Lausanne loan of \$40,000,000, which was to be made to Austria by France, Great Britain and other powers. This was at last probably to be made available to Austria on July 10 and would strengthen Dr. Dollfuss at home and enable him to begin to pay again arrears of interest on foreign debts and to remove all exchange restrictions which have seriously hampered Austrian foreign trade. Owing to this attempt of Nazi Germany to bully his little republic, Dr. Dollfuss was accorded special interest and consideration during his attendance at the London Economic Conference. Representatives of most of the powers took pains to show him their warm sympathies in his courageous fight to maintain Austria's independence.

The Spanish Cabinet Crisis

By WILLIAM E. LINGELBACH

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THE violent disputes over the Church Law in the Spanish Cortes and its final signature by President Zamora on June 2 seriously widened the breach between the political parties during June. On June 8 Premier Azaña, who has guided the destinies of the republic for two years, resigned because of increasing opposition and the refusal of President Zamora to agree to his proposed reorganization of the Ministry of Agriculture without consulting other party leaders.

The Premier's resignation created

an intense political crisis. The Conservative opposition was jubilant. With Azaña out of the way, they hoped that the radical measures passed by the Cortes, especially the Church Law, would not be enforced pending a general election to be held in the near future, in which they felt confident that the strong national reaction against the Socialist régime would give them control of the next Cortes. President Zamora consulted the leaders of more than a dozen parties. Twelve of the fourteen republican leaders advised against an elec-

tion at this time. Even so conservative a man as Santiago Alva declared that "elections would undo everything that has been accomplished and incite every kind of passion." In the dilemma between an election that threatened to precipitate a nationwide strike by the Socialists and the continuation of the socialistically dominated Azaña régime of the Cortes, the President reluctantly decided against dissolution of the Cortes.

In his efforts to find a new Premier the President even turned to the Socialist leader, Indalecio Prieto, Minister of Public Works in the last Ministry, to form a Cabinet, hoping, so it was reported, that if the latter found that he could not control the majority, his party would be more willing to be left out of the reorganized Ministry under more conservative leadership. Prieto surprised him by undertaking the task, but when he gave him the names of his proposed Cabinet, the President objected because of the omission of Alejandro Lerroux, the powerful leader of the Radical Republicans. This caused a new impasse, and since Lerroux would not cooperate, the President was obliged on June 11 to ask Azaña to resume his place as head of the government. On the following day, just four days after his resignation, Azaña announced his Ministry. In general, it is very like the one dismissed three days before. Domingo Barnes, a member of Azaña's own party, the Radical Socialists, became Minister of Education to carry out the onerous task of building up a secular system of education in a country where 8,000 members of the religious orders have hitherto done nearly all the teaching. As Minister of Industry and Commerce, José Franchy Roca of the Federal party brought the fifteen Deputies of that group to the

support of the government. The three important Ministries of Foreign Affairs, Labor and Public Works are held by Socialists, while Premier Azaña himself resumed the portfolio of the War Department.

The dominant party leaders of the Cortes and apparently President Zamora himself are unwilling to risk a general election at this time. They are determined not only to hold what has been gained but to carry out their program of making Spain entirely secular and, if not entirely, at least largely, socialistic. They even envisage, so some of the leaders say, Latin America following their lead in a revolt against the old aristocratic and clerical domination.

When President Zamora on June 2, just before the expiration of the legal limit set by the Constitution, signed the Church Law and returned it to the Cortes without comment, the Pope at once issued a vigorous protest in his encyclical, *Delectissimi Nobis*, while the Department of State of the Vatican announced that the members of the Spanish Government were, in virtue of their acts, automatically excommunicated under the provisions of the Canon Law. All Catholics in Spain were urged to combat the law by every legal means within their power. As was to be expected, the Socialist Republican Cortes paid little or no heed to the denunciation. On the contrary, it expressed its defiant attitude by adhering to an amendment to the law creating the Tribunal on Constitutional Guarantees by which that body, which is expected to play the rôle of a sort of superior court on constitutional questions, is inhibited from passing upon the constitutionality of laws enacted by the Cortes before the tribunal was created.

Agrarian discontent continued to disturb the rural areas. In the west and south dissatisfaction over the delay in making the land distributions, added to low wages and business depression, caused riots in many sections. On the other hand, the general farm strike planned for June 5 was called off. In Catalonia much bitterness and violence developed among the *rabassaires* (tenants on a share basis) against the landowners. Attempts at intimidation and the seizure of land grew more frequent as the protest of the landlords against the new law passed by the Catalan Parliament were made public. In the meantime, the confiscation of land continued.

In Barcelona a crisis in the municipal government was caused by the sudden resignation of the Mayor and the chiefs of the municipal departments on June 2, as a result of quarrels in the *Esquerra*, the powerful Catalan political party which controls both the municipal and the regional government. Indeed, the almost bankrupt condition of the city treasury, together with the serious friction within the State government since the inauguration of the Catalan statute early in June, has caused much anxiety.

The revolt in the little Republic of Andorra, whose simple political government dates back to 1278, took on another aspect early in June. In addition to the successful demands for a democratic government in which the younger generation would have a share, decided hostility was aroused by the increasing encroachment of France, which already has its own schools side by side with those of Andorra, and controls the telegraph system and the new highway through the country. The attempt also to take over the telephone system aroused the

young Andorrans, who had already objected to the feeble resistance offered to French encroachments by the Council of Elders, and who were now further incensed by concessions to a gambling casino, through which there was to be set up in Andorra a sort of miniature Monte Carlo for tourists and vacationists using this gateway of the Pyrenees between France and Spain.

ITALY'S RELATIONS WITH FRANCE

The Four-Power Pact was initialed in Rome on June 7 by the representatives of Italy, Great Britain, France and Germany. The plan was first suggested by Premier Mussolini to Prime Minister MacDonald during the latter's week-end visit to Rome, but strong objections from Poland and the Little Entente, supported by France, made a radical revision necessary. As revised, the pact therefore represents drastic departures from the original proposals, though it is still regarded in Italy as a personal triumph for Mussolini. The four powers agree to cooperate in the maintenance of peace; to consult on all economic matters of European interest; to promote the success of the London Economic Conference; and, within the covenant of the League, to examine all proposals affecting treaty revision and the territorial integrity of its members. Whatever the effect of the pact upon the World Economic Conference or upon the German demands for the right to equality in armaments, Mussolini's tribute to French statesmanship in his speech before the Senate indicates a decided shift in Italian foreign policy in favor of more cordial relations with France.

Notwithstanding the meeting of the economic conference, and the agree-

ment to cooperate, the Official Gazette announced another increase in Italian tariffs of 25 per cent on the value of raw materials, 30 per cent on foodstuffs, live stock and half-finished products, and 40 per cent on finished goods. Goods now free will be taxed 20 per cent of their value. Budgetary and financial problems were very much to the fore in the early days of June. Just before the Chamber of Deputies adjourned for the Summer recess, Minister of Finance Jung discussed the budgetary situation very frankly. The deficit on June 30, when the financial year ended, would be, he said, about 4,000,000,000 lire. For the coming year, 1933-34, he estimated the revenue at 17,714,000,000 and expenditures at 20,614,000,000 lire, leaving a deficit of about 2,900,000,00 lire, a considerable improvement over the present year when the falling off in revenue is considered. The suggestion that this year's deficit be met by a domestic loan is looked upon with favor in financial quarters. In the meantime the special loan of 60,000,000 lire for the electrification of the State railways which was opened on June 1 was subscribed for almost immediately.

The plan for electrification of the railways has been carefully worked out and is to extend over an entire decade. When completed, more than 4,100 miles of road will have been electrified and millions of lire will be saved by the substitution of water power for costly coal brought from abroad. Along with electrification, there will also be a general improvement of the railroad system itself, much of which is antiquated. Incidentally, there will be greater speed and the elimination of the disagreeable smoke and heat incident to the

many tunnels on Italian railways. The first lines to be electrified are the coast roads north and south.

Another phase of Italian transport and communications is the steady and enlightened modernization of the highways. Under the direction of the Azienda Autonoma Statale della Strada, which is heavily subsidized by the government, but which also has independent revenues derived from the tax on vehicles using the roads, nearly 6,000 miles of old and very bad roads have been rebuilt on the most up-to-date plans during the Fascist régime. Unique among these are the automobile speedways, the most recent being between Genoa and Trieste now nearing completion. A road built especially for automobile trucks between Milan, Italy's chief industrial centre, and the seaport of Genoa is also well advanced.

That this modern and scientific development of Italy's system of transport and communications, coupled with other phases of the extensive program of public works, is having a wholesome effect on the unemployment problem appeared in the statistics issued on June 15. According to the figures there has been a steady decline from the peak this year of 1,229,387 in February to 1,000,154 in June, that is, about 14½ per cent, or more than 5 per cent better than the showing of last year. Heavy demands for the products of the metallurgical industries is responsible for the added employment of a considerable number. At the same time the spread of the work-sharing system has had some effect on the favorable showing, more than 52,000 persons working on part time during May.

During the month agriculture again received Mussolini's special attention. In a widely quoted article in the *Nuova Antologia* he refers to the

Italian farmer as the backbone of the Fascist régime. A special decoration, known as the "Star of Rural Merit," has been established in recognition of the leading rôle of agriculture in Italian economic life. Modern scientific agriculture, and what Mussolini calls "rurality," is being encouraged in every way possible in an effort to deflate urbanism, which is "bloodless and declining." Only in the country do the births outnumber deaths and so contribute to Mussolini's idea of a dynamic nation.

In line with the effort to get Italian women to assert their independence of the Paris fashions and in support of the Institute of Modes established at Milan, the *Giornale d'Italia* published a list of certain members of the aristocracy who still patronize Parisian instead of Italian dressmakers. Two of the persons singled out, the Marchesa Esati and the Princess d'San Faustino were Americans.

Claudio Treves, one of the outstanding anti-Fascist exiles and formerly a Socialist leader in the Italian Parliament, died in Paris on June 11 upon his return home from presiding at a memorial meeting in honor of Mateotti, the Italian Socialist Deputy who was murdered in 1924.

At the Vatican, events of the Holy Year were seriously disturbed by the action of the Spanish Government in finally enacting the Church Law. In a vigorous encyclical the Pontiff denounced the unnecessarily harsh measures and called upon all Spaniards to unite in defense of their faith. He declared it to be his duty to reprove and condemn a law so contrary to the divine constitution of the

church. At the same time the encyclical makes it clear that the church is not combating political reforms and is quite ready to live in harmony with all forms of government and civil institutions "provided the rights of God and Christian conscience are safeguarded."

THE PORTUGUESE COLONIAL PROBLEM

Anxious over the international situation in regard to her colonies, Portugal has been giving special attention to her colonial problem. Early in the month all the colonial Governors and High Commissioners were called together for a colonial conference in Lisbon. Budgets and taxation, education, transportation and military affairs were the chief items on the agenda. The government decided to build a powerful broadcasting station to broadcast music and songs of a national and patriotic character throughout the colonies. In view of the fact that her large colonial empire contains some important possessions coveted by other powers, Portugal's anxiety is readily understood. As far back as 1895 the abortive Treaty of Windsor between Great Britain and Germany envisaged a partial division of the Portuguese African colonies.

At home the new régime is continuing the policy of the former Ministry by a very successful management of finances. All Treasury bills as they fall due from July 1 on were to be redeemed and no new ones issued. An increase in tariff rates on thirty-two items was reported early in June, many of them seriously affecting imports from the United States.

Central European Union Again

By FREDERIC A. OGG

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IT was to be expected that the World Economic Conference would bring once more to the fore the oft-discussed proposal for a Central European economic union. Before the conference was two weeks old various indications were given that the matter was again under consideration. After the Foreign Ministers of the Little Entente nations discussed the plan for a Danubian customs union in London on June 20, Dr. Benes and M. Jefftitch left for Paris to talk over the project anew with Premier Daladier and Foreign Minister Paul-Boncour.

While recognizing that a solution of Franco-Italian political differences must come before a Danubian union is possible, Little Entente statesmen were reported to be of the opinion, after the signing of Premier Mussolini's four-power pact, that rivalry in Central Europe between France and Italy was about to be liquidated. The Little Entente emissaries were understood to have been commissioned to tell the French Government that the three affiliated nations favor a Franco-Italian accord, provided the integrity of the Little Entente is not interfered with, and that the three States remain unalterably opposed to a rumored Franco-Italian plan to place Prince Otto of Habsburg on the throne in Vienna and maintain Admiral Horthy at Budapest as Regent, thus creating a "personal monarchy."

A main objective in all the discussions carried on by the Little Entente States among themselves and with

their neighbors is to steer Austria and Hungary away from a possible customs union with Germany and to attach them to the Little Entente itself, on economic lines, by tariff treaties. The *Prager Tageblatt* on June 17 printed an interview with Foreign Minister Benes advocating a restoration of Austro-Hungarian union, in an economic sense, as the best way out of the present difficulties of both States, especially Austria.

During May and June the three lesser States that make up the Little Entente—Czechoslovakia, Yugoslavia, and Rumania—satisfied themselves fairly well, on the strength of French assurances, that the four-power pact signed by Great Britain, France, Germany and Italy will affect only questions in which the signatory States, and no others, are interested. Accordingly, they seemed prepared to accept the pact calmly. Poland, however, remained entirely unconverted. In the eyes of both the Polish Government and the Polish press, the agreement is incompatible with the principle of equality of nations on which the covenant of the League is based, and consequently a direct challenge to the democratic system in international relations supposedly won by the sacrifices of the World War. Declaring on June 9 that the pact changes the League system by attempting to set up the supremacy of some States over others, Foreign Minister Beck did not hesitate to assert that Poland would not respect any decision concerning its

interests or affairs arrived at directly or indirectly on the basis of the pact.

POLISH BUSINESS CONDITIONS

Business conditions throughout Poland improved but slightly, if at all, during the first quarter of 1933. Investment activity remained at about one-fifth of the 1928 record; the volume of industrial production dropped on the average by 11 per cent as compared with the preceding quarter; industrial commodity prices showed a general decline. On the other hand, there was some easing of money conditions, and the cost of production declined sufficiently to suggest the possibility of profits with only a slight increase of sales.

The national budget for the fiscal year ending March 31, 1934, provides for total expenditures of 2,457,981,000 zlotys (\$275,785,000 at par value) and anticipates total revenues of 2,058,932,000 zlotys (\$231,102,000), leaving a tentative deficit of 399,049,000 zlotys (\$44,773,000). On account of the extreme uncertainty of the economic and financial situation, all figures are regarded as purely tentative.

The final steps in the ratification of the new Polish-American commercial treaty took place on June 9, when the formal exchange of documents was effected between Foreign Minister Beck of Poland and Sheldon L. Crosby, United States Chargé d'Affaires at Warsaw. John F. Cudahy of Wisconsin, son of the founder of the meat-packing firm of Cudahy Brothers, has been appointed United States Ambassador to Poland.

Hundreds of Polish Jews who had become German citizens, living chiefly in German Upper Silesian frontier towns, have in recent weeks filed application with the Polish authorities for a restoration of Polish citizenship.

The Polish-German convention governing minorities in Upper Silesia provides for transfers of citizenship with little difficulty.

The success of the Nazis in securing a majority at the Danzig Senatorial elections of late May, though deplored in Poland, came as no surprise in that quarter, since Free City politics regularly take color from Germany, and on more than one occasion a newly chosen Volkstag has been, in effect, a miniature Berlin Reichstag. Indeed, Warsaw expected an even more impressive Nazi victory, and has voiced lively satisfaction with the firm stand made by the Socialists and Centrists, and especially with the defeat of certain Nationalists who had been conducting a particularly violent anti-Polish campaign.

HUNGARY'S VACANT THRONE

The Legitimists have of late intensified their propaganda for putting "hereditary King" Otto (son of the late Emperor-King Charles and the Empress Zita) on the vacant throne of Hungary. Hitherto the movement has been confined largely to the aristocracy and the upper middle class, but more recently the campaign has been carried to the lower classes as well.

In view of these developments, a sudden trip of Premier Julius Goemboes to Berlin for a conversation with Chancellor Hitler on June 17 set political tongues wagging. It was understood that the movement for the enthronement of Prince Otto was one of the topics discussed, but both a communiqué of the German Government and an official statement issued from Budapest declared that the matters under consideration were chiefly of an economic, rather than a political, character. Premier Goemboes, a

pronounced anti-Legitimist, continued to deride the idea that the Legitimist hopes stand any chance of realization. While in Berlin, the Premier, who commends himself to the Hitlerites in a special degree because of his racial views, was shown unusual courtesies.

Meanwhile, Hungarian political affairs have been given a new slant by the reported preparation of a government bill greatly extending the powers of Regent Horthy. According to rumor, the measure contemplates powers fully equal to those which the King would enjoy if there were one, and the project is interpreted as aiming at a further stabilization of the existing régime and as designed to end all prospect of the enthronement of Otto for a long time to come.

RUMANIAN OIL OUTPUT

A conference of oil producers representing about 80 per cent of the oil production of the world, and including the principal British, American, Dutch and Rumanian interests, in Paris on April 5 renewed for three months an arrangement under which the United States companies undertook to reduce their production to 2,000,000 barrels a day, while the production of other countries, including Rumania, was also limited on a quota basis. The Rumanian producers asked for an increase of their quota, but finally agreed that it should remain at 1,800 tons a day, on condition that the limits imposed on other producers should be observed and that British and American distributors, who handle most of the Rumanian output, should make certain improvements in the service. Alleging that the producers of the United States had not kept within their quota, the Rumanian Oil Association on June 2 notified the remain-

ing interests that Rumanian producers would no longer consider themselves bound by the April agreement.

YUGOSLAV SOCIALISTS REAPPEAR

According to a statement made about the middle of June by Dr. Zivko Topalovitch, leading Yugoslav Socialist, the Socialist party, which since the establishment of the dictatorship in 1929 has been functioning chiefly in an underground manner, is about to come out into the open. The party, argued this spokesman, has a legal right to existence under the law on political organizations promulgated last year; besides, he added, with fascism in the ascendant in much of Central Europe, it is imperative that the Yugoslav working classes have an acknowledged and effective party of their own.

A petition signed by 250,000 Croats in North America and about 60,000 in South America, demanding recognition of the independence of five provinces in Yugoslavia populated mainly by Croats, was presented to the League of Nations, and also to the Disarmament Conference, on June 2.

ATTEMPT TO KILL VENIZELOS

An attempt to assassinate Eleutherios Venizelos, seven times Premier of Greece during the last twenty-three years, failed on the night of June 6, although shots fired by an assailant wounded the statesman's wife and chauffeur. '

Recommendations for reduction of expenditures by both government departments and private citizens have been made by the League of Nations committee on Greek finances. A further recommendation for an increase of taxes is not expected to be followed up by the government.

Sweden's Public Works Program

By SIDNEY HERTZBERG

AFTER three months of discussion and negotiation, a comprehensive program for the material curtailment of unemployment in Sweden was approved by both chambers of the Riksdag on June 21. Ever since its assumption of office last September, the Social-Democratic Cabinet, controlling only 104 of the 230 seats in the lower chamber, has sought to reach an agreement with some other party which would assure the passage of its recovery proposals without sacrificing their Socialist complexion. Enough of a community of interest was finally established with the Agrarians to make such a compromise possible. The Agrarian party, with thirty-six members, was the only group other than the Social-Democrats that increased its representation at the last quadrennial elections. Such an alliance in the Riksdag seems to guarantee the tenure of the present Cabinet for at least a year to come.

The program as adopted is credited largely to Finance Minister Ernst Wigforss. It is expected to put 74,000 men to work for one year. It provides for the ultimate expenditure of 288,000,000 kronor. Of this the government at Stockholm will raise 180,000,000; the balance is to be contributed by the local areas where public works will be undertaken. (The par value of the krona is 26.799 cents; the current quotation is about 20 cents.)

The bulk of the government's share, 125,000,000 kronor, will be obtained by the issuance of short-term loans maturing in five years. Short-term

government bonds in return for cash will probably be issued to the Riksbank, which is in an extremely strong position at present. Another 25,000,000 kronor will be raised by long-term loans. Of the remainder, 10,000,000 kronor is to come from the current budget and 20,000,000 kronor from the extraordinary budget.

The short-term bonds are to be repaid from the proceeds of steeply increased inheritance taxes. These levies are arranged on a sliding scale and include a basic tax and a surtax. On estates of more than 400,000 kronor, the government will take 54,040 kronor, plus a 20 per cent surtax on the total amount above 400,000 kronor. Estates worth more than 100,000 kronor must pay a basic tax of 16,260 kronor, plus a 24 per cent surtax. On 60,000 kronor estates the basic tax is 13,490 kronor, the surtax 30 per cent. On 40,000 kronor estates the basic tax is 9,890 kronor and the surtax 35 per cent.

The expenditure of the government's 180,000,000 kronor will affect almost every phase of Sweden's economic life. The money is to be used in three ways—for public works, to underwrite private enterprises and for direct relief. The last item is the smallest and it is hoped that not even the 25,000,000 kronor allowed for it will be needed. The second item includes direct loans to small farmers. Public works include railway extensions, elimination of grade crossings, improvement of bridges and harbors, construction of roads and the financ-

ing of a variety of projects designed to aid the small farmer.

One of the most controversial points in the program concerned the rate of wages to be paid for unemployed relief work. Throughout the discussion of the bill the Social-Democrats insisted that the normal wage scale should obtain. They carried this point. Unskilled labor will be paid the prevailing wage in the district where the work is done. Skilled labor will receive the regular union wage. The trade unions won another victory when it was agreed that a member of a union accepting unemployment relief cannot be forced to serve as a strikebreaker in his trade in some other community. On the other hand, workers who strike voluntarily in their own trade will not be allowed to accept temporary employment on relief projects.

Among the tasks which the government undertakes in return for the support of the farmers is to keep the minimum price of butter at 28 cents a pound and to fix the price of this year's wheat at 2.35 cents a pound and of rye at 2.18 cents. There is also to be an excise on margarine of not more than 6 cents a pound and the introduction of restrictions on the importing and exporting of eggs.

While the Social-Democrats were chided for trying to help a poor man by advising him to be a spendthrift, on the whole the program was well and hopefully received. It is in line with the ideas of the "expansionist" school of economics which has a great many adherents in Sweden.

SOCIAL INSURANCE IN DENMARK

A complete reorganization of Denmark's social services will become effective on Oct. 1, 1933, as a result of the action taken by the Riksdag late in May after several years' study of

this question. In the future all social services will be grouped under three main laws covering workmen's compensation, general insurance and poor relief. The new legislation replaces fifty-three previous statutes.

As in the past, private companies are authorized to undertake insurance against industrial accidents. But in order to qualify for government recognition, insurance companies other than mutual-aid funds must show a minimum membership of 10,000 workers. This ruling is expected to save about \$215,000 in the administration of workmen's compensation.

The general insurance subdivision includes sickness, invalidity and old age. All persons between the ages of 21 and 60 are required to insure with a sickness fund. Among the benefits added by the new legislation are the extension of the cash benefit for childbirth from 10 to 14 days and the attendance of a midwife free of charge. Invalidity insurance also becomes compulsory for all persons between 21 and 60 years of age.

The new law abolishes the loss of privileges and civil rights suffered by those receiving poor relief under the superseded legislation. However, loss of these rights will be incurred when indigence is clearly the applicant's own fault.

The expenditure involved under the new measures is estimated at 203,979,000 kroner (\$54,673,322 at par). The largest share, 82,040,000 kroner, is borne by the State. The local authorities supply 67,871,000 kroner, the insured persons 40,618,000 and the employers 13,450,000. (The par value of the krone is 26.799 cents. Current quotations have been around 19 cents.)

FASCIST TRIUMPH IN MEMEL

The elections in the city of Memel on May 23 resulted in an unexpected

landslide for the so-called Christian Socialist Workers Alliance, which has definite Nazi sympathies. Of the 19,140 votes cast, the alliance received 9,860, a clear majority, which entitled it to 20 of the 38 seats in the municipal assembly. However, so small was their expectation of this overwhelming victory that they had nominated only 18 candidates.

The Social-Democratic party's vote dropped from 2,835, obtained three years ago, to 397. It received one seat. The vote of the Communists, who also retained one seat, fell from 3,405 to 1,289. The seven combined bourgeois parties polled 2,745 votes and will control six or seven seats. The Lithuanian bloc increased its vote from 2,180 to 4,510 and will hold nine or ten seats. Apparently many voters from other parties supported the Lithuanian group in the belief that it was the most effective way of combating the Fascists.

LATVIA AND THE NAZIS

A short-lived trade war between Latvia and Germany broke out on June 12 as a result of the declaration of a boycott on German goods by Jewish and Socialist organizations in Latvia. Because the Latvian officials permitted the proclamation of this boycott, the Reich Government prohibited all imports of Latvian butter. The Latvian customs authorities answered by suspending the clearance of imports from Germany pending a decision from Riga on retaliatory measures. For a few days trade between the two countries was at a standstill. The Latvian Government was reported on June 16 to have pledged itself to attempt to stamp out the boycott agitation as well as anti-Nazi propaganda generally. As a result of these concessions, Germany lifted the ban on butter and normal trade relations

were resumed. The annual exports of Latvian butter to Germany are valued at about \$4,250,000.

ESTONIA'S POLITICAL CRISIS

A bill to reform the Constitution of Estonia having for its principal feature the popular election of a President for a term of four years, was voted down in a national referendum on June 10 by about 330,000 to 160,000. Both the State Assembly and the Cabinet were in favor of the measure. It had been the government's hope that the election of a President whose tenure of office was secure for a definite period would have introduced an element of stability sorely needed in Estonian political life.

Ironically enough, the defeat of the reforms was effected by Socialists and Fascists who found themselves in accidental but unsympathetic unity. On the one hand, the Socialists mistrusted the government's motives and felt that democracy was being threatened; on the other hand, the Fascist groups were thoroughly disgusted with the government's concern for democracy. The Fascists have a proposal of their own on which they want the electorate to vote. They would also establish the office of President. But instead of making him a stabilizing figurehead, they would vest in him many of the powers now exercised by the State Assembly and the Cabinet. Another reform they would like to make is the reduction of the size of the State Assembly from 100 to 50 members. This program, of course, follows the orthodox Fascist line. While the anti-democratic elements favoring it are not yet organized as a political party, their influence seems to be spreading. The most vociferous supporters of fascism are demobilized soldiers and university students.

Soviet Economic Gains

By EDGAR S. FURNISS

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AFTER six months of strenuous effort it is evident that the Soviet government is making rapid progress toward a solution of the grave economic problems with which the present year began. The food crisis which attracted so much attention was but one phase of a wide-spread economic recession affecting the principal branches of industry as well as agriculture. (See the article, "Soviet Russia's Fight for Food," by William Henry Chamberlin on pages 553-558.) The development of the Five-Year Program during its first stages had reached a climax when, early in 1932, there set in such a serious decline of production in the key industries that it threatened to nullify the results of the preceding years of gigantic national effort. This threat of a general collapse of the program caused the Soviet authorities to abandon their previously announced plans for further expansion during 1933 and to adopt drastic emergency measures to recover the position reached over a year ago.

A summary of the situation at the end of June shows that these measures have more than accomplished their purpose. Coal output, which had fallen as low as 158,000 tons daily, now exceeds 200,000 tons. The production of iron and steel, which had declined last Fall to 12,000 and 10,000 tons a day, has risen to 20,000 and 18,000 tons. The automotive industries, including agricultural machinery, have doubled their output as compared with the low point reached

last Summer. At the end of May freight car loadings had risen to a daily average of 53,000, the highest point reached since the beginning of the Five-Year Program. A general average of the current production in other basic industries, such as cement, oil, chemicals, rubber and railway equipment, shows an increase of some 40 per cent above the low water marks of last year. In all these lines the Soviet Union has not only arrested the decline which began in 1932 but has recovered most of the gains achieved during the first three years of the program.

A review of industrial trends throughout the world published by the Soviet Government on the eve of the World Economic Conference brings these developments within Russia into contrast with the experiences of other countries. Using 1928 as a base it is shown that whereas industrial production in the rest of the world has fallen to 67 per cent, it has risen in Russia to 218 per cent. The report claims for the Soviet Union first place in world production of agricultural machines and tractors, and second place in pig iron, oil and general machine production. Compared with the rest of Europe, Russia now stands first in all these fields of industrial activity.

Similarly optimistic reports are made with regard to Soviet progress in agriculture. By June 15, 96 per cent of the Spring sowing program had been completed as compared with 90 per cent at the same date last year.

The government is especially pleased by the showing of the State and collective farms this year. These "socialized" forms of agriculture representing four-fifths of the cultivated area have completed and in some cases exceeded their quotas of planting, while the individual peasants whose land comprises the remaining fifth of the area have lagged 25 per cent behind the program. The government's objective this year is a total of 237,000,000 acres planted to grain crops. This is less by 13,000,000 acres than the figure set for the Spring planting last year, and 3,000,000 acres less than the area actually planted as recorded in last year's official reports. The grain shortage of the past Winter, however, led to the discovery that the figures of grain planting reported to the government last year had been falsified through a conspiracy of officials in the principal grain producing regions. The government has acted to prevent a repetition of this, first by the execution of thirty-five prominent members of the conspiracy, and secondly by a new system of control and supervision which places every rural district under delegates of the Communist party reporting directly to the central committee in Moscow.

Given favorable weather, the somewhat smaller grain area is expected to return a greatly increased quantity of food crops to the government as compared with last year. According to present estimates grain collections from the coming harvest, after caring for the needs of the urban population and the army, will leave in the hands of the Soviet Government an exportable surplus of some 140,000,000 bushels. To insure full and rapid completion of the grain collection program the Soviet authorities have adopted stringent measures, including suspension of all grain sales in

the open market after July 1 until the collectives and individual peasants have discharged in full the grain taxes levied earlier in the year. A fulfillment of the program of grain requisitions will restore to the Soviet Union its former place in the world market at the end of the Summer.

These favorable developments were reflected in the confident tone with which Commissar Litvinov addressed the Economic Conference in London on June 14. He asserted that the depression which has caused the harassed nations of the world to seek escape from ruin through cooperative action is unknown in Russia. The Soviet Union, because of its vast importing power, was pictured as an outlet for the export surpluses of other countries the accumulation of which in world markets is chiefly responsible for the prolongation of the depression. Reducing this general proposal to specific terms Litvinov stated that his government was prepared under certain favoring circumstances to place orders abroad in the near future to a total of nearly \$1,000,000,000 distributed as follows: \$200,000,000 worth of ferrous metals; \$100,000,000 worth of materials for the textile, leather and rubber industries; \$400,000,000 worth of machinery, including railway equipment; \$85,000,000 worth of agricultural products; \$50,000,000 worth of consumers' goods; \$50,000,000 worth of equipment for the shipping industry. These purchases, he pointed out, would almost suffice to clear the markets of accumulated stocks and would prove of direct benefit to the majority of the countries represented at the conference.

Litvinov's speech, however, was far from being a straightforward business proposal. It was intended principally to produce political reactions

favorable to the Soviet Union. The moment chosen was conducive to dramatic effect, for he spoke to an audience representing nations in desperate need of export markets, and in the capital of a nation whose depressed metal industries had just suffered serious damage through its government's unfriendly action toward the Soviet Union. Litvinov's introductory statement, that Russia has escaped the effects of the world-wide depression, is certainly not true. A review of Soviet foreign trade over the past four years shows a decline of imports from a high point of \$45,000,000 per month to less than a third of that amount during the present year, and an almost equivalent decline of exports. The course of foreign trade is a more accurate barometer of Russia's progress than that of most other countries, because the whole program of her internal development rests on ability to obtain increasing supplies of materials and services from abroad. At the present moment, Russia's primary needs in relation to other nations are political—a more cordial attitude which will accord the Soviet Government the same status in international affairs and the same social and economic intercourse which characterize the relations of modern States.

The Soviet Union, however, has offered some proof of the impressive figures used by Litvinov to indicate its buying power. At the present moment the Soviet Government is engaged in negotiations for heavy purchases in France and the United States. The condition of the transaction in each case—the "favoring circumstances" referred to by Litvinov—is the willingness of these countries to extend long-term credits. In France the negotiations involving some \$20,000,000 worth of goods are reported

to be going forward with every prospect of success. The French Government is considering a proposal to underwrite in behalf of French industries 70 per cent of the value of goods sold to Russia against the Soviet Union's promises to pay.

In the United States, the Russian trading corporation, Amtorg, approached the Reconstruction Finance Corporation for a loan to finance the purchase of American agricultural products beginning with an initial shipment of 70,000 bales of cotton. On both sides it was agreed that the contract if completed need not imply a change in our policy of non-recognition, and on July 2 it was officially announced that the R. F. C. would advance about \$4,000,000 to finance the sale of from 60,000 to 80,000 bales of cotton for shipment to Russia. When the proposal of a loan to Amtorg came before the R. F. C. on previous occasions it was blocked by the requirement that the Soviet notes be underwritten by some responsible group of American interests, since Amtorg, though possessing a charter of incorporation from the State of New York, was held to be the representative of a government with which our official agencies may not form agreements.

America's export trade to the Soviet Union fell from its high point of \$132,000,000 in 1930 to \$15,000,000 in 1932 as lack of credit forced the Soviet Union to turn to other countries for imports. The United States had so far been the only first-class country whose government failed to provide exporters with a guarantee of Soviet credit. Our need of foreign outlets principally for basic commodities is as urgent as that of any other country. Moreover, we had already an established practice of extending

government credit to finance the commercial transactions of our nationals with foreign governments as indicated by the recent loan of \$50,000,000 by the R. F. C. to China. These considerations undoubtedly won powerful support from American business interests for favorable action on Russia's application for a loan.

The restraint and forbearance characterizing the Soviet attitude toward Germany since the advent of the Nazi régime was suddenly abandoned as a result of Dr. Hugenberg's speech in London on June 16. The German delegate's request that the conference support his government's plea for additional territory in Europe was interpreted in Moscow as a statement of a Nazi policy of expansion eastward at the expense of Russia. The Soviet official press responded with a denunciation of Hitlerite Germany which surpassed in violence and bitterness any public expression of Soviet opinion on foreign affairs during recent years. An editorial in *Pravda* contained these bellicose words: "Let the Fascists remember that the Soviet Union is now a great power which can defend itself and can smash back at those who think or talk about the seizure of Soviet soil. Let them remember that our country can organize such a counter-stroke as would not only insure the protection of our territory and keep it inviolable, but might leave in our hands slices of the territory of those who attempt to grab Soviet soil by bandit aggression." The attempt of the German Government to disclaim official responsibility for Dr. Hugenberg's statement did not succeed in moderating the violence of Soviet opinion. Through *Pravda* the Soviet Government insisted that "Hugenberg just blurted out what the present leaders of Germany are thinking

about and aiming at—in short, it is their program." After many months of tension while the Soviet Union was making apparently sincere efforts to arrive at some basis for peaceful relations with Germany, an aggressive enemy of communism in all its forms, the Soviet authorities have served notice upon the world that there can be no real peace between the two countries as long as they are dominated by two irreconcilable political philosophies.

Relations with Japan in the Far East remain in a state of uncertainty. The Soviet Union, though obviously apprehensive lest Japan's expansion policy in Asia encroach upon Soviet soil, is avoiding any direct attack upon that policy by either word or deed. Conferences are being held looking toward the sale of the Chinese Eastern Railway to Manchukuo; and news dispatches from Tokyo at the end of June suggested that the transaction would involve the surrender of Vladivostok to Japan. Large issues are involved in both proposals which can be settled only by careful and good-tempered negotiation by both parties. If the Soviet Union withdraws her control over the railway a re-formation of her Far Eastern frontier must follow since her exposed position in Vladivostok would then be a source of weakness to her. An apparent surrender of financial interests and even territory coveted by Japan might consequently make the Soviet Union a more formidable enemy of that country in the event of future conflict. While present relations between the two countries require a pacific attitude on the part of each, Russia is not inclined to the show of force against Japan which occurred last year; but the threat of reprisals against those "who attempt to grab Soviet soil" does not lack significance.

The Boom in Palestine

By ROBERT L. BAKER

IN the midst of the world depression, Palestine's growing prosperity is remarkable. The little country is experiencing a period of rapid development in every line of human endeavor, which is, in the main, based on solid foundations. There are a number of reasons for this almost unique prosperity at a time such as this. Among them are the influx of large amounts of capital from abroad, totaling \$12,000,000 in 1932, a growing population, the application of scientific principles and practical experience to agriculture, business and industry and, last and probably most important of all, the initiative, energy and imagination of the Jewish Agency.

In a land that was apparently destined for little else but agriculture—and even that on an insignificant scale—the Jewish community has worked hard and intelligently for the country's development on better-balanced lines, and the Arabs as well as the Jews have benefited. The Promised Land which Joshua's committee of investigation found to be flowing with milk and honey has become a land that produces fine oranges, potash and electric power, refined oils and matches, cement and porcelain teeth, clothing and leather goods. Above all these activities is the British Mandate Government, serving as a mediator between Arab and Jew, though at times seeming to lean over backward in trying not to favor the Jews. The government is especially concerned to restrict Jewish immigration to numbers that Palestine can absorb, and

to keep out improvident settlers. Palestine's banks are gorged with the deposits of well-to-do refugees from Germany, Poland, Rumania and other countries, and these funds are invested as rapidly as sound opportunities arise. Apart from the persecution in Germany, Poland and elsewhere, and the resources of the Jewish National Fund, Jews abroad have found it to their advantage to invest their money in Palestine because the country has been off the gold standard and currency has been nearly 50 per cent more valuable when transferred.

In agriculture great progress has been made in the growing of citrus fruits, mostly along the formerly barren coastal plain. Land development organizations have taken up large tracts and, after parceling them out to investors in plots ranging up to a hundred acres, they undertake to drive wells, plant trees and even to market the products if the investors so desire. Up to 1931 the production of oranges ranged from 1,500,000 to 2,000,000 crates annually. In that year production jumped to 3,000,000 crates and last season to 4,250,000. The forecast for the 1933 season is 6,000,000 crates. As trees are still being planted in large numbers, it is expected that the figure will reach 10,000,000 crates within a few years.

By-products are being utilized and Palestinian fruit syrups are finding markets not only in the Levant but also in Europe. Grapefruit trees have been planted and when they begin to bear a European market will easily

be found to absorb the whole production. Much of the success of citrus fruit growing in Palestine is due to the modern methods of cultivation employed by agronomists who were trained in California. The value of land, in the cities as well as in the orange-growing districts, has risen tremendously—a characteristic of booms. Plots in the maritime plain now bring as much as \$500 an acre.

The industrial development of Palestine has almost kept pace with the growth of agriculture. Though there are in all about 4,000 manufacturing establishments, most of them are small and only about 600 can properly be called factories. The new Jewish city of Tel-Aviv, with a population of more than 60,000, which is growing at a rate of 12,000 a year, is the centre of manufacturing. Here are produced bricks, tiles, furniture, machinery, shoes, textiles and other goods, though many of the raw materials must be imported. A cement plant at Haifa is kept busy supplying the demands of construction projects that are under way in all parts of Palestine. Since the Jordan was harnessed the Palestine Electric Corporation furnishes power to industries and homes throughout the country. At the present rate of industrial expansion Palestine bids fair to be almost entirely free of the need of importing manufactured products, and already considerable quantities of such goods are being exported. With the imminent completion of the deep-water port at Haifa, the general improvement of communications and the completion of surveys for the projected Haifa-Bagdad Railway, it seems likely that Palestine will occupy an increasingly important position in Near and Middle Eastern trade. Labor conditions, too, are at present good because of the construction of

the pipe-line from Haifa to the Mosul oil fields, and because of the boom in building.

Zionists and Jewish circles generally were shocked to learn of the murder at Tel-Aviv on June 16 of Dr. Chaim Orlosoroff, a brilliant young Labor member of the Jewish Agency Executive. The crime was committed under cover of darkness so that the police have few clues to work on. Many Laborites believe that the deed was committed by members of the Zionist Revisionist party with which Dr. Orlosoroff had been at odds for several months. Opinion generally, however, held to the theory that an Arab group with Communist sympathies was responsible. The government offered a reward of £500 for information leading to the arrest of the murderers, and the Jewish Agency offered a reward of £1,000. Dr. Orlosoroff's funeral on June 18 was marked by a procession of 70,000 mourners.

NEW TURKISH TARIFF

Without previous warning the Turkish Government on May 31 promulgated and put into effect a new tariff schedule that bears heavily on imports of manufactured goods. According to the customs law in force up to that time import duties could be changed only on three months' notice except in the case of certain articles under extraordinary circumstances. The new law simply states that no delay is to be observed and that increases and decreases are to become immediately effective. As a result the import business was temporarily paralyzed. Many of Turkey's commercial treaties as well as the former domestic customs law provided for three months' notice of a change in duties, and it was reported that the German Chargé d'Affaires at once

protested against the violation of the Turco-German treaty, which contained that protective clause. Whether the Turkish Government was applying the new law as a *ballon d'essai* or simply failed "to make haste slowly," it found it necessary on June 7 to announce that the application of the new law was to be delayed for the customary three months in the case of products coming from countries with which Turkey had concluded commercial treaties. But the incident is illustrative of the determination of the Turkish Government to maintain at all costs the dearly won balance of trade.

English is to replace French as the principal foreign language taught in Turkish colleges and schools, in accordance with a decision of the Turkish Government. The new regulation will go into effect later this year. By another rule just issued by the Ministry of Public Instruction every elementary school child throughout the republic must each morning recite the following "creed": "I am a Turk, honest and industrious. My duty is to protect those weaker than I, to respect my elders, to love my country sincerely. My ideal is to raise myself higher and to continue in the path of progress. I make a gift of my existence to the existence of Turkey."

Robert P. Skinner was on June 12 named as Ambassador to Turkey to succeed Charles H. Sherrill. Mr. Skinner, a career diplomat, is now American Minister to Finland.

THE EGYPTIAN DEBT

Egyptian public opinion is still aroused over the manner in which payments on Egypt's foreign debt are to be made. Viewed as legal contracts, these obligations should be redeemed in gold, and the French and Italian Governments, whose nationals hold a

considerable share of Egyptian Government and bank bonds, are insisting upon a literal compliance with the engagements. Egypt, however, went off the gold standard in September, 1931, in sympathy with the British action and, in view of the depreciation of her currency, payment in gold would penalize her about 30 per cent. With the hearty approval of the press, the government has refused to pay the service on its bonds in gold. In January the Mixed Court at Cairo ruled that payment must be made in gold. The British Government and press are inclined to make allowance for the equities in the situation and to appreciate Egypt's sense of the injustice of the demands of her French and Italian creditors, especially in view of the action of those governments in regard to certain of their international obligations.

Great Britain's position in the controversy is quite embarrassing. On the one hand, she is expected, because of her special position in Egypt, to protect foreign interests; on the other hand, her anxiety to maintain her reputation for justice makes her reluctant to do anything that might give reason to the nationalist accusation that she abets foreign exploitation. The decision of the Cairo Mixed Court has been appealed and later in the year the higher Mixed Court at Alexandria will review the case. Should it reaffirm the decision requiring gold payment, Great Britain would be under a moral obligation to press the Egyptian Government to abide by such ruling. The British are sincerely hoping that an acceptable compromise can be reached between French and Italian bondholders and the negotiators of the Egyptian Government.

Yet the question is complicated by a number of factors, the most important of which concerns the *Crédit*

Foncier Egyptien, the most important French bank in Egypt. This institution is in the awkward position of having to redeem the coupons of its bondholders in gold, while it at present receives depreciated Egyptian pounds on its large investment in Egyptian Government bonds. Its administration has attempted to escape from the dilemma by winning a court ruling that it might pay its obligations in sterling, but it has lost decisions on the question in both Egypt and France.

KING OF IRAQ IN EUROPE

King Faisal of Iraq left Bagdad by airplane for Europe on June 5, taking with him his Ministers of Finance and Economics. The purpose of his

visit to London, his ultimate destination, is to discuss a number of economic topics with the British Government. It is expected that these will include the British ownership of Port Basra, the Iraqi railways and the Iraqi debt. The royal party arrived in London on June 20 resplendent in the state uniforms recently designed by an English tailor and delivered to Faisal and his Ministers at Ostend.

ANGLO-PERSIAN OIL PACT

The agreement between the Anglo-Persian Oil Company and the Persian Government for a new concession was ratified by the Persian Mejlis (Parliament) on May 28. Shah Riza Khan Pahlevi signed the agreement the following day when it came into force.

Britain and Japan Become Rivals

By TYLER DENNETT

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JAPAN and Great Britain a generation ago were what may be described as "natural friends," if one is willing to adopt the convenient and sound though somewhat "cannibalistic philosophy" of nationalism. In those days the two nations had common interests in their desire to keep open the trade doors in China, in their opposition to Russia and in a similar co-operative policy in the Pacific. Today the situation is quite changed. Japan and Great Britain are now clearly "natural enemies"; they are engaged in no common effort anywhere, and, over a very considerable portion of the earth, they are relentless competitors. They compete for the carrying of trade, for naval supremacy in the Far East and, most of all, for many

markets where a generation ago Great Britain had to fear only Germany.

Japan's most dependable outlet for manufactured goods is not in America, where silk is a luxury and subject to fickle fashions, but in Asia and Africa, where cheap cotton garments are all one style and the alternative to wearing them is nakedness. Here Japan and Great Britain have come to grips with results that make it not difficult to plot the curve of Anglo-Japanese relations for the next generation. A trade war has been developing not merely in Manchuria and China, where Great Britain is powerless to influence the results, but in Malaya, in East Africa and in India, where British industrial interests still can influence the tariff. Already Lon-

don has informed Tokyo that at the expiration of six months the most-favored-nation clause shall not apply in British West African colonies, while the government of India has imposed an additional duty on Japanese imports, from 75 to 87 per cent on cottons. Now comes the government of the British Federated Malay States with new duties on low-grade products ranging from 30 to 80 per cent. Thus the lines are closing in on Japan which is almost certain to adopt retaliatory measures. The last catastrophe desired by the Japanese Government just now is a tariff war with Great Britain, but to Japan cotton exports are a matter of life and death. Tokyo has asked for a trade conference at Simla, but the impatient Japanese cotton spinners propose a boycott on Indian raw cotton. It is hardly to be expected that the Japanese Foreign Office, having so long urged that the anti-Japanese boycott in China is a violation of the Sino-Japanese commercial treaty, will extend its public blessing to the proposed cotton boycott, but on June 9 it was reported in Tokyo that the government "does not intend to interfere," which is precisely what the Nanking Government did not do in China.

"The Menace of Japanese Competition" is the title of a report recently issued by the Federation of British Industries in London. It is estimated that another 15,000,000 or 20,000,000 is likely to be added to Japan's population in the next twenty or thirty years, and only a fraction of this increase can be fed from Japanese domestic resources. "It is inevitable that Japanese competition must become increasingly intense," the report says, adding that a reckless national sales policy was deliberately instituted when the yen depreciated, with disas-

trous results on British and other markets, where tariffs were useless to stem the flood of goods produced under "Japan's primitive labor conditions of long hours and low wages."

Sir W. H. Davidson, a member of the British Conservative party, which has been traditionally friendly to Japan, declared in the House of Commons on June 1 that in Malaya, which previously was a British market, Japanese print goods, sold at 4 cents per yard, are able to supply 75 per cent of the demand. The average female operative's wage in Japan is now, because of the currency depreciation, about 18 cents a day. The rate paid in Great Britain is from eight to ten times as much.

Equally disturbing to Anglo-Japanese relations is the Japanese demand at Geneva for naval parity. Parity in the Far East and South Pacific means not parity at all but a Japanese naval supremacy which would cast its long shadow westward across the Indian Ocean as well. Japan has a colonial empire to defend and trade arteries to protect. They lie, in part, in what were only a few years ago unquestioned British trade preserves. Now Japan has as much reason for seeking to maintain and extend her position as Great Britain had when she fought the second Afghan war or when she fortified Zanzibar, or, more recently, when she laid out the Singapore naval base. Let us, therefore, keep in mind the fact that today Japan and Great Britain, so recently effusive partners in the famous Anglo-Japanese alliances, are no longer "natural friends"; today they are "natural enemies."

THE LEAGUE AND MANCHUKUO

The League of Nations has fired another feeble shot at Manchukuo. The subcommittee on non-recognition of the new State on June 2 adopted a

report proposing to all members of the League a schedule for the application of the Stimson non-recognition doctrine. It recommended that Manchukuo be excluded from international conventions such as those on posts, telegraphs and radio; that exchange of currency be refused; that passports be accepted only as identity papers; that the retention or replacement of consuls be not regarded as recognition of the new government; and that the acceptance by foreigners of positions or concessions in Manchukuo be only at their own risk. The report was adopted by the full advisory committee in a fifteen-minute session on June 7. A week later the Secretariat sent out a circular submitting the recommendation for the approval of the members of the League. Japan has thus received another slap on the wrist.

Throughout the discussions in the committee and the subcommittee at Geneva, Hugh Wilson, the American Minister to Switzerland, who was officially designated by the United States Government to represent it in the deliberations, by instruction from Washington, sat silent. Thus has come to pass what was predicted in these pages nine months ago as probable—another ludicrous fiasco of American policy in the Far East; another fit, another start, and then quiet retreat. American evangelists of the League again seek to point the moral that its failure is solely due to the failure of the United States to accept League membership. A more obvious moral is that neither the United States nor the members of the League are prepared to make a matter of "international concern," to quote the language of the covenant, out of remote affairs which actually do not now vitally concern them at all.

AMERICA AND JAPAN

American relations with Japan since Viscount Ishii's visit to Washington continue to improve. Despite the resentment that was felt by Japanese at the concentration of the American fleet in the Pacific, when Admiral Montgomery M. Taylor, on a United States cruiser, visited Tokyo, during the first week of June, he was greeted with much ceremony and cordiality. Received by the Emperor, dined by Prince Fushimi and Prince Osumi, as well as by the Mayor of Yokohama, the Admiral was introduced as one whose "balance of mind and judgment and fairness" were the chief elements preventing complications during the Shanghai incident. It is understood that the prevailing sentiment in the American Navy in the Far East throughout the Manchurian incident has been not unfriendly to Japan.

Japan desires to follow up its diplomatic successes in Washington by negotiating a new arbitration treaty. The Rengo News Agency reported in Tokyo on June 9 that Viscount Ishii proposed such a treaty to President Roosevelt and that the latter assented in principle. Washington promptly denied that any negotiations were actually in progress. The Japanese seem to feel that the signing of such a treaty at this time would tactically improve their position in dealing with the British commercial problem.

SOVIET-JAPANESE RELATIONS

After preliminary conversations in Moscow the formal negotiations for the sale of the Chinese Eastern Railway to Manchukuo opened in Tokyo on June 26. The effect of such an agreement, provided it can be made between the Soviet Union and Manchukuo, will be to secure for the new State the first international recogni-

tion apart from that of Japan. For that reason it would appear that Japan could well afford to be liberal as to the terms of the purchase. The extremes are \$175,000,000 proposed by Moscow and \$12,000,000 to \$25,000,000 offered by Tokyo. With such a spread it is obvious that there is room for the introduction of political considerations as a substantial part of the agreement.

The Russian Coast Guards in Kamchatka are having with the Japanese fishermen in motor boats difficulties similar to those which the Filipino Coast Guards have had in the Philippines. Three Japanese fishermen were shot on June 15 while trying to land near Cape Origa. The Japanese Government asked permission from Moscow to dispatch the Japanese consul from Petropavlovsk on a destroyer to investigate. When the request was refused, the destroyer went nevertheless and sent out a landing party. The Soviet Vice Commissar for Foreign Affairs protested vigorously to the Japanese Ambassador, Tamekichi Ota.

As a sop to China the United States Government, through the Reconstruction Finance Corporation, has agreed to lend \$50,000,000 for the purchase of American cotton and wheat, in the proportion of four to one. The terms of the loan are 3 per cent interest, complete repayment in three years, with warehouse receipts and certain consolidated Chinese excise taxes for security. The loan was arranged by Dr. T. V. Soong, Chinese Finance Minister, when he stopped in Washington, en route to the World Economic Conference. The more raw cotton China can buy in America the less she will buy in India; the more cotton cloth she can manufacture herself, the less she will buy in Japan, Great Britain or the United States. The British are not very happy about the deal, but the

Japanese are saying nothing; they also have done rather well in Washington recently. The Southwest Political Council in Canton has protested that the loan will be spent to defend the Nationalist régime at Nanking. In the latter capital it was announced that the loan will be used only for productive purposes.

Flood and famine are taking their annual toll in China. For some weeks both the Yangtse and the Yellow Rivers have been rising dangerously. The city of Tungjen, 400 miles southwest of Hankow, has been destroyed, and the floods are pouring into the Yangtse through various streams. The Yellow River, where it turns sharply east at Kaifang, is threatening to return to its old bed, which it left in 1852, and find its outlet to the sea by way of Suchow and the channel of the Hwai River, hundreds of miles south of the present mouth in the Gulf of Chihli. Meanwhile, in Shensi Province famine and even cannibalism, due to drought, are reported in an area of 120,000 square miles. The famine in Shensi has lasted since 1928. Since that date it is estimated that no less than 3,000,000 people have died of starvation.

CHINA'S DWINDLING AREA

What is China today? At the Washington conference a dozen years ago, when this same question was asked, Wellington Koo was able to answer by reading from the Chinese Constitution the definition of the boundaries of the republic. What is China now? Obviously it does not include the three Eastern Provinces, described on the maps as Manchuria, nor does it include Jehol. It does not include, for all practical purposes, Outer Mongolia, which enjoys autonomy under a government more closely related to Moscow than to Nanking. Nor can

China claim any substantial relation to Chahar, where General Feng Yushiang at Kalgan, although at the mercy of Japan if the latter chooses to move in that direction, need not fear Chiang Kai-shek.

If by China one means the Nanking Government, the zone north of Tientsin and Peiping, which was demilitarized by the treaty of Tangku and from which the Japanese are now withdrawing, may also be described as substantially lost. This zone will be administered by Chinese but under Japanese surveillance. South China, with its autonomous government at Canton, is likewise free—more independent of Nanking than Cuba is of Washington. A compromise has been reached between Nanking and Canton by which the latter's military subsidy has been increased and the Cantonese troops have retired from the north.

There is, in addition, a revolt in distant Chinese Turkestan from which the Chinese Republic has never yet received any revenue. After a six months' lull fighting has again broken out in Szechwan, where Governor Liu Wen-hue, professing loyalty to Nanking, is challenged by Ting Shi-ho. Intense fighting is under way thirty miles northwest of Chengtu, the capital of the province. It is also officially reported that the Dalai Lama in Tibet is renewing warlike preparations with the probable intention of attacking the Sikong area of Western Szechwan.

On the other hand, the Nanking Government has profited by the Japanese campaign in the sense that where its writ runs there is greater unity than there was two years ago. The Young Marshal has been eliminated. The minor Northern Generals have disavowed a purpose to join General Feng against either Japan or Nanking. The danger that the Cantonese would upset Chiang Kai-shek

seems for the present to have disappeared. Moreover, the so-called Communist movement in the Yangtse Valley, against which General Chiang has thrown all his resources, is not spreading. Wilbur Burton, who writes sympathetically in the Baltimore *Sun* of Chinese communism, concludes, after close analysis of the facts, that "there is no prospect of a Communist triumph in China at any time in the predictable future." Every outstanding Communist leader has either recanted or has been killed. While the movement has had considerable success in the rural areas it has failed in the cities and lacks the proletarian basis which Marxian communism must possess to succeed. One reason for the failure of communism in the ports which are the great industrial cities of China is the fact that over these areas the foreign gunboats exercise potential control.

SIAM'S BLOODLESS REVOLUTION

Siam has just undergone a second bloodless revolution within a year. Seizing the opportunity when King Prajadhipok was absent from Bangkok, some soldiers and sailors took possession of the city at 5 A. M. on June 20 and quickly returned to power the radical leaders who had been ousted after the coup of June 24, 1932. The Commander-in-Chief of the army led the uprising. The King had on April 12 suspended the new Constitution on the ground that the reformers were communistic in their convictions. Following the second coup of June 20, the revolutionists sent a prompt message to the King assuring him of their loyalty and he immediately accepted the new government, which is expected to readopt the reform program of Luan Prod, who was the leader of the revolt a year ago.